

## **Augmentation Mahiyanganaya Water Supply Project - 2014**

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The audit of financial statements of the Augmentation Mahiyanganaya Water Supply Project for the year ended 31 December 2014 was carried out under my direction in pursuance of the provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented under the Export Credit Facility Agreement No: 231.269 dated on 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Unicredit Bank Austria AG.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Export Credit Facility Agreement of the Project, then Ministry of Water Supply and Urban Development, presently the Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to provide safe drinking water to rural population of around 33,301 by designing, constructing and expanding public water supply facilities in Mahianganaya and Redeemaliyadda Divisional Secretariat Division and thereby contribute to improving living standard and reducing poverty in the area. As per the Export Credit Facility Agreement, the total estimated cost of the Project amounted to Euro 16.72 million equivalent to Rs. 2,743.56 million and out of that Euro 10.40 million equivalent Rs. 1,707.56 million or 62.24 per cent was agreed to be provided by Unicredit Bank Austria AG and Euro 6.32 million equivalent to Rs. 1,036.00 million or 37.76 per cent was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 22 May 2013 and was scheduled to be completed by 07 May 2015.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Credit , etc.
- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Export Credit Facility Agreement.
- (e) Whether the funds, materials and equipment supplied under the Credit had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Export Credit Facility Agreement had been complied with.

**1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

**2.1. Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided, and

- (c) the financial covenants laid down in Export Credit Facility Agreement had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Accounting Deficiency

The fixed assets valued of Rs. 1.12 million procured by the Project had been shown under work –in- progress instead of being shown separately.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for		Allocation made in	Funds utilized			
	Financing in the			the Budget	during the		up to 31 December
	Export Credit		Estimate for the	year 2014		2014	
	Agreement		year under review				
	Euro	Rs.	Rs.	Euro	Rs.	Euro	Rs.
	million	million	million	million	million	million	million
Unicredit							
Bank	10.40	1,707.56	200.00	3.33	584.18	5.41	922.30
GOSL	6.32	1,036.00	100.00	0.51	80.00	0.61	99.10
<b>Total</b>	<b><u>16.72</u></b>	<b><u>2,743.56</u></b>	<b><u>300.00</u></b>	<b><u>3.84</u></b>	<b><u>664.18</u></b>	<b><u>6.02</u></b>	<b><u>1,021.40</u></b>

To ensure the achievement of the objectives of the Project, using allocated resources, there should be a comprehensive detail action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, annually etc. covering the entire Project period. Although detailed action plan had been prepared by the Project covering physical targets, there were no mechanism introduced for identification of deviation and getting required remedial measures.

### 3.2 Physical Progress

According to the progress reports, the overall physical and financial progress of the activities of the Project was remained at 55.95 per cent and 39.1 per cent respectively at the end of the year under review. The period of the Project is scheduled to be closed by 07 May 2015 and therefore, the completion of the activities of the Project during the rest of the period is remained doubtful, unless expedite actions taken by the Project.

### 3.3. Extraneous Transaction

It was observed that a sum of Rs. 1.12 million had been spent by the Project to contribute for an international convention which was not related for the activities of the Project.

### **3.4 Issues on Financial Control**

The activities of the Project had not been subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board, as required by the Financial Regulation 134 (3) and Circular No. 05 of 26 July 2010 of the Department of Management Audit.

### **3.5 Matters in Contentious Nature**

The following observations were made.

- (a) It was observed that the National Water Supply and Drainage Board had not taken action to enter into a Subsidiary Loan Agreement with the Government of Sri Lanka relating to the financial arrangements made under the Exports Credit Facility Agreement.
  
- (b) As a practice, computation of the remuneration for the staff of the Project had been done by the National Water Supply and Drainage Board and 20 per cent of overhead was charged from the Project even though the Project had recruited adequate staff for its administration works.