

Greater Ratnapura Water Supply Project - Phase 1 - 2014

The audit of financial statements of the Greater Ratnapura Water Supply Project - Phase I for the year ended 31 December 2014 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented as per Credit Agreement No SRL - 038412 dated 15 January 2013 entered into between the Democratic Socialist Republic of Sri Lanka and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Agreement of the Project, then Ministry of Water Supply and Drainage, 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 objective of the Project is to provide safe drinking water by constructing and expanding Water Supply facilities in the Sabaragamuwa Province and thereby contribute to improving living standard and reducing poverty in the area. As per the Credit Agreement, the estimated total cost of the Project was Euro 26.65 million equivalent to Rs. 4,493.66 million. Out of that Euro 21.93 million equivalent to Rs. 3,698.06 million was agreed to be provided by the Banco Bilbao Vizcaya Argentaria Bank and Euro 3.87 million equivalent to Rs. 652.60 million was agreed to be provided by Development Finance Corporation of Ceylon Bank. (DFCC). The balance amount of Euro 0.85 million equivalent to Rs. 143.0 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 24 July 2013 and scheduled to be completed by 24 July 2015. Subsequently, the period of the Project had been extended up to 24 November 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 identifications of the purchases made out of the Loan, etc,
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Credit Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Credit 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,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Credit Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

It was observed that 03 motor vehicles procured at Rs. 24.42 million during the year under review had been recorded under the work-in-progress instead of being shown under the property, plant and equipment.

2.2.2 Un-reconciled Balances

The following observations were made.

- (a) As per the information of then Ministry of Water Supply and Drainage, the government contribution as at 31 December 2014 had been shown as Rs. 62.28 million. However, according to the financial statements of the Project, it was shown as Rs. 73.98 million.
- (b) As per the information furnished by then Ministry of Water Supply and Drainage, foreign funds amounting to Rs. 623.48 million had been received as at 31 December 2014 to implement the activities of the Project. However, as per the financial statements of the Project, it was shown as Rs. 3,081.30 million.

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 financing in the Credit Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year 2014		up to 31 December 2014	
	Euro million	Rs. million	Rs. million	Euro million	Rs. million	Euro million	Rs. million
BBVA	21.93	3,698.06	623.48	9.72	1,625.25	13.30	2,257.03
DFCC	3.87	652.60	-	-	-	3.87	658.76
GOSL	0.85	143.00	63.00	0.44	73.98	0.47	79.38
	<u>26.65</u>	<u>4,493.66</u>	<u>686.48</u>	<u>10.16</u>	<u>1,699.23</u>	<u>17.64</u>	<u>2,995.17</u>

A detailed action plan highlighting the financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc, covering the entire Project period should be prepared to ensure the achievement of the Project objectives using allocated resources within scheduled time period. However, such plan had not been prepared and implemented by the Project.

3.2 Physical Progress

The following observations were made.

- (a) According to the progress reports furnished by the Project, the overall physical and financial progress at the end of the year under review was 57 per cent and 78 per cent respectively. Eventhough the activities such as designing of the civil construction works, raw and clear water transmissions and construction of quarters etc, had shown satisfactory progress, the other activities such as construction of intake tanks, water treatment plant, ground reservoir and office buildings etc, had shown slow progress as at 31 December 2014.

- (b) Although ownership of the lands should be transferred before handing over the site to the contractor for constructions, ownerships of the lands for construction of water treatment plants, office buildings, water reservoirs and staff quarters of the Project had not been transferred to the National Water Supply and Drainage Board even up to 31 December 2015.

3.3 Contract Administration

The following observations were made.

- (a) According to the feasibility study of the Project, it was expected to construct a distribution concrete water tank. However, after having concurrence with the contractor, 02 water tanks were constructed by using pre-fabricated materials at an estimated cost of Rs.357.2 million equivalent to Euro 2.18 million allocated for the construction of the concrete tank. However, average effective life time of the concrete water tanks was remained at 50 years whilst the effective life time of the pre-fabricated water tank was remained at 20 years, as per warranty certificate produced by the contractor.
- (b) According to the information received, 32.26 per cent of total capacity of 13,000 cubic metres of the water treatment plant and the pumping station of Pompekele was being consumed during the year under review. However, no action had been taken to increase of the usage of the water treated and distributed by the pumping station.

3.4 Human Resources Management

Although the posts of a Project Accountant and a Management Assistant had been approved by the Department of Management Services on 11 February 2014, action had not been taken to recruit the suitable persons for the respective posts even up to 31 December 2015. As a result, the General Ledger and other financial information of the Project were maintained by the National Water Supply and Drainage Board.

3.5 Issues in Financial Management

The following observations were made.

- (a) According to the Financial Regulation 133 and Management Audit Circular No. 05 of 26 July 2010, the activities of the Project had not been subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board.
- (b) According to the Financial Regulation 626, the financial statements of each projects should be prepared based on separate accounting records of the Project maintained in accordance with accepted accounting principles. However, same cash book to record receipts and payments of 12 Donor Funded projects had been maintained by the Project Accounting Division of the National Water Supply and Drainage Board without maintaining the cash book separately for each Project.