

## **Greater Trincomalee Integrated Water Supply Project - 2014**

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The audit of financial statements of the Greater Trincomalee Integrated Water Supply Project 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 read in conjunction with Clause 8 of Section II of the Credit Agreement No. CLK 3000 01 H dated 5 October 2005 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development.

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

According to the Credit Agreement of the Greater Trincomalee Integrated Water Supply 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 objective of the Project was to provide safe drinking water by increasing the number of supply connections upto 61,500 from the present level of 17,000 in the areas of Kantale, Tanpalakamam, Kinniya, Trincomelee town and Gravets and the north of the Kuchchaveli. The estimated total cost of the Project amounted to Euro 29.63 million equivalent to Rs. 4,650.25 million and out of that the Agence Francaise De Development of France and the Reserve Pays Emergeants-French Protocol agreed to be financed Euro 10.35 million equivalent to Rs.1,500.75 million and Euro 10 million equivalent to Rs.1,650 million respectively. However, due to cost overrun, a supplementary allocation of Euro 2.5 million equivalent to Rs. 412.5 million had agreed to be granted by the Reserve Pays Emergeants-French Protocol. The activities of the Project commenced in February 2006 and initially scheduled to be completed by end of November 2010. Subsequently, the period of the Project had been extended in 03 occasions up to 31 August 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 Generally Accepted Accounting Principles 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 judgment, 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 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 Loan etc,
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Credit Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether 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 Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiencies**

Construction materials valued at Rs. 60.89 million transferred temporarily to the Regional Service Centre office - Trincomalee of the Water Board had not been accounted by the Project. Therefore, the value of work-in-progress as at 31 December 2014 had been overstated and accounts receivable understated by similar amount.

### **2.2.2 Un-reconciled Balances**

The following observations are made.

- (a) As per the information furnished by the Ministry of City Planning and Water Supply, proceeds of Rs.70 million received from Reserve Pays Emergent had been remitted during the year 2014 to implement the Project activities. However, it was shown in the financial statements of the Project as Rs. 108.69 million. The difference of Rs. 38.69 million had not been reconciled and adjusted in the accounts accordingly.
- (b) As per the information furnished by the National Water Supply and Drainage Board, the value of work-in progress amounted to Rs. 4,250.02 million as at 31 December 2014. However, as per the financial statements of the Project, it was shown as Rs. 4,851.65 million and the difference of Rs.601.63 million had not been reconciled and adjusted in the accounts accordingly.

### **2.2.3 Lack of Evidence for Audit**

According to the information received, a discount amounting to Euro 14,129 equivalent to Rs. 2.5 million offered from the contractor had been shown in the Statement of Financial Position as at 31 December 2014. However, details thereon could not be made available for audit.

## 2.2.4 Non – Compliances with Laws, Rules and Regulations

The following non – compliances are observed.

- (a) Transactions of the Project had not been subjected to the internal audit as per the Management Audit Circular No. 05 of 26 July 2010.
- (b) The Construction Industry Guarantee Fund Levy at one per cent on contract payments as specified in the Section 03 of Finance Act No.05 of 2005 to be remitted to the Commissioner General of Inland Revenue had not been deducted and remitted by the Project on the total contract payments amounting to Rs.25.3 million made as at 31 December 2014.

## 2.2.5 Unsettled Audit Issues Highlighted in the Previous Audit

Security deposits valued at Rs.6.91 million placed at the Ceylon Electricity Board on electricity supply for 02 intakes and a water treatment plant had been written off as an expenditure of the previous year and no action taken to rectify the error.

## 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	Funds utilized			
				during the year under review		as at 31 December 2014	
	Euro million	Rs. million	Rs. million	Euro million	Rs. million	Euro million	Rs. million
AFD	10.35	1,500.75	40.00	0.23	39.75	10.20	1,637.07
RPE	12.50	2,062.50	70.00	0.62	108.69	10.87	1,778.05
GOSL	6.78	1,087.00	80.00	0.44	76.83	9.03	1,465.61
<b>Total</b>	<b><u>29.63</u></b>	<b><u>4,650.25</u></b>	<b><u>190.00</u></b>	<b><u>1.29</u></b>	<b><u>225.27</u></b>	<b><u>30.10</u></b>	<b><u>4,880.73</u></b>

### 3.2 Physical Performance

According to the progress report furnished for audit, the activities of the Project such as construction of intakes, pump houses and rehabilitation of reservoirs and laying of pumps in Trincomalee, Kantale and Wellamanal had been completed as at 31 August 2014. Out of that, the works under 03 contracts awarded under the above mentioned rehabilitation activities had been completed with delays ranging from 12 months to 46 months. Other works such as laying of pipes in Kinniya had been substantially completed as at 31 December 2014 with delays over 14 months from the expected date of completion, due to delays in handing over of the construction sites to the contractor.

**3.3 Contract Administration**

A sum of Rs. 4.2 million had been paid in 2013 to procure equipments such as a Flow Meter and 02 Mud Sensors for the use of construction works of intakes, pump houses and rehabilitation of reservoirs had not been utilized for the intended purposes up to 31 December 2015, due to lack of electricity supply.

**3.4 Matters in Contentious Nature**

As a practice, the computation of remuneration for the staff of the Project had been done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged thereon even though the adequate staff for general administration purpose are employed at the Project Management Unit. Hence, an overhead charges amounting to Rs. 2.56 million had to be spent by the Project during the year under review, out of the proceeds received from the General Treasury.