

Eastern Province Water Supply Development Project (Rural Water Component) - 2015

The audit of financial statements of the Eastern Province Water Supply Development Project (Rural Water Component) for the year ended 31 December 2015 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 Section 4.08 (a) of Article III of the Loan Agreement No.SL-P 98 dated 26 March 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and Japan International Co-operation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Finance and Planning, presently the Ministry of National Planning and Economic Affairs is the Executing Agency and the Eastern Provincial Council 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 Eastern Province, and thereby contribute to improve living standards and reducing poverty in the area. As per Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 6,054 million and out of that Japan Yen 4,904 million was agreed to be financed by the Japan International Co-operation Agency. Further, Japan Yen 924 million equivalent to Rs. 1,176 million had been allocated for the Rural Water Component of the Project and for that purpose, Japan Yen 764 million equivalent to Rs. 972 million agreed to be financed by the Japan International Co-operation Agency. The Project commenced its activities on 26 March 2010 and scheduled to be completed by December 2013. Subsequently, the period of Project was extended up to 23 July 2015. However, the financial statements for the year ended 31 December 2015 had been presented for audit.

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 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 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 Loan 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 Generally Accepted Accounting Principles.
- (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 Loan Agreement had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,

- (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 Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary allocation for the year under review, utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed to be financed according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	during the year under review	Fund utilized as at 31 December 2015	
	JPY million	Rs. million	Rs. million	Rs. million	JPY million	Rs. million
JICA	764	972	-	-	857	1,180
GOSL	160	204	10.94	10.94	177	242
Total	<u>924</u>	<u>1,176</u>	<u>10.94</u>	<u>10.94</u>	<u>1,034</u>	<u>1,422</u>

3.2 Physical Performance

According to the Progress report of the Project, the Project activities under 24 rural water supply schemes in Trincomalee, Ampara and Batticaloa Districts had been completed as at 31 December 2015.

3.3 Contract Administration

The following observations are made.

- (a) The contract awarded for civil works and supplying and laying of pipes under Pulmoddai Water Supply Scheme in 2012 at a cost of Rs.152.93 million had been completed and handed over to the National Water Supply and Drainage Board on 02 February 2015. It was observed that adequate action had not been taken even as at 31 December 2015 to rectify deficiencies pointed out in my report issued for the previous year on contract administration of Pulmoddai Water Supply Scheme.

- (i) Rectification of damages of PVC pipes with the length of 1100 metres laid along Pulmoddai – Kokilai Road at a cost of Rs. 914,375.

- (ii) Alternative actions for the use of 02 intake wells, out of 03 intake wells constructed at Yan-Oya for the purpose of pumping water to the water treatment system which remained unused, due to inferior quality of water. Therefore, a sum of Rs. 2.10 million spent thereon had become fruitless due to construction of respective wells without carrying out of proper feasibility studies. Further, the physical site visits made by the auditors in June 2016 had revealed that supply of water for 3500 households in the Pulmoddai area by constructing intake wells was limited to 02 hours only per day, due to failures of the operations of the respective intake wells.
- (b) As mentioned in my previous report, action had not been taken by the Project to provide purified water under the Padavisiripura Water Supply Scheme implemented at a cost Rs. 149.45 million, despite the people living in the Divisional Secretariat Division of Padavisiripura were highly affected by Chronic Kidney Diseases. It was observed at the site visits that untreated water directly supplied from the dug wells was being distributed to the households and the people in the area had to incur additional costs continuously to buy drinkable water supplied by the Padavisiripura Pradeshiya Sabha.
 - (c) The civil works contract awarded in 2012 at a cost of Rs. 27 million under sub projects of Kulavinamadu, Thanthamalai in Batticaloa District had been terminated in 2013 due to the poor performance of the contractor. Subsequently, the contract had been re-awarded to another contractor at a cost of Rs. 10.95 million. The following observations are made in this regard.
 - (i) It was observed that the capability and past experience of the contractor had not been carried out, before awarding the contract. Further, the action had not been taken to encash the guarantee bond during its validity period and hence, the mobilization advance amounting to Rs. 586,141 paid to the contractor could not be recovered even as at 31 December 2015.
 - (ii) Further, it was observed that the material at the site valued at Rs. 977,509 had not been handed over to the Project at the time of termination of contract and the Project could not be able to take action against the contractor thereon, due to lack of provisions in this regard in the contract agreement.
 - (d) It was observed that 02 shallow well intakes, water towers and pump houses etc constructed by the Project at a total cost of Rs. 20.91 million under the water supply scheme implemented at Karadiyanaru in Batticaloa District had remained idle up to 31 December 2015.

3.4 Closure of the activities of the Project

Eventhough the financing arrangements of the Lending Agency were closed as at 23 July 2015, action had not been taken to prepare and present winding up accounts.