

Greater Trincomalee Integrated Water Supply Project - 2015

The audit of financial statements of the Greater Trincomalee Integrated Water Supply Project 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 Clause 8 of Section II of the Credit Agreement No. CLK 3000 01 H dated 05 October 2005 entered into between the Democratic Socialist Republic of Sri Lanka and the Agency 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 is 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, Tampalakamam, Kinniya, Trincomelee town and Grave and the north of Kuchchaveli. The estimated total cost of the Project amounted to Euro 37.08 million equivalents to Rs. 5,654.25 million and out of that the Agence Francaise De Development of France and the Reserve Pays Emergeants-French Protocol (RPE) had agreed to finance Euro 10.35 million equivalents to Rs.1,500.75 million and Euro 12.5 million equivalent to Rs.2,062.50 million respectively. The balance of Euro 14.23 million equivalent to Rs.2,091 million was expected to be contributed by the Government of Sri Lanka. The activities of the Project commenced in February 2006 and scheduled to be completed by 30 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 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (h) Whether the 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.

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 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 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 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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 Credit Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Trade discounts amounting to Rs.5.15 million offered by the contractors at the bid evaluation stage had not been considered by the Project for accounting purposes and the respective amount had been shown in the financial statements erroneously as payable.

2.2.2 Un-reconciled Balances

The following observations are made.

- (a) According to the information provided by External Resources Department, total disbursements made during the year under review amounted to Euro 719,044 equivalent to Rs.105.47 million. However, as per the financial statements of the Project, the corresponding amount had been shown as Euro 713,718 equivalent to Rs.109.69 million and the difference of Euro 5,326 equivalent to Rs.4.22 million had not been reconciled. Further, the total disbursement as at 31 December 2015 of Euro 11.83 million equivalent to Rs.1,903.22 million shown in the records of External Resources Department was not agreed with the corresponding amount of Euro 11.58 million equivalent to Rs.1,887.74 million as at that date shown in the financial statements of the Project.
- (b) As per the financial statements, the value of work-in-progress as at 31 December 2015 amounted to Rs.4,965.69 million. However, as per the financial statements of the National Water Supply and Drainage Board, the corresponding value had been shown as Rs.4,188.49 million.

- (c) As per the financial statements, the balance of the Imprest Account maintained at the Central Bank of Sri Lanka amounted to Rs.21.64 million. However, as per the statement of the Central Bank of Sri Lanka, the corresponding amount was shown as Rs.20.66 million.

2.2.3 Non – Compliances with Laws, Rules and Regulations

It was observed that the Value Added Tax aggregating Rs.21.34 million had not been paid to the respective contractors since 2013, contrary to the provisions made in the Value Added Tax Act, No.14 of 2002.

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 2015 are shown below.

Sources	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 2015	
	Euro million	Rs. million	Rs. million	Euro million	Rs. million	Euro million	Rs. million
AFD	10.35	1,500.75	-	-	-	10.14	1,637.07
RPE	12.50	2,062.50	-	0.68	109.70	11.70	1,887.74
GOSL	14.23	2,091.00	71.28	0.50	81.47	9.58	1,547.07
Total	<u>37.08</u>	<u>5,654.25</u>	<u>71.28</u>	<u>1.18</u>	<u>191.17</u>	<u>31.42</u>	<u>5,071.88</u>

3.2 Physical Performance

According to the progress report furnished for audit, Project had awarded 26 contracts to carry out the activities of the Project such as construction of intakes, pump houses, rehabilitation of reservoirs, laying of pumps and other services. Out of that 24 contracts awarded under above mentioned activities had been completed as at 31 December 2014 with delays ranging from 12 months to 54 months. The balance works of laying of pipe had been completed as at 31 December 2015 with delays over 19 months from the targeted dates. The objective of the Project was to provide safe drinking water by increasing the water supply connections up to 61,500 from the present level of 17,000 connections. According to the progress reports of the Project, only 47,759 water supply connections had been completed as at 31 December 2015.

3.3 Matters in Contentious Nature

The following observations are made in this regard.

- a) The civil construction works of the water supply schemes of Pulmudeai and Echalampattu had been abandoned due to the shortages of funds allocated. As a result, sums of Euro 55,622 and Euro 85,632 spent by the Project to obtain consultancy services on hydrological studies and feasibility study respectively had become fruitless.
- b) As per the recommendations made in Project Completion Report, immediate actions are required to be taken to construct the sludge drying beds for sludge discharge from treatment plant. However, the Implementing Agency had not taken action thereon as enable to provide water supply facilities to intended parties.

3.4 Extraneous Activities

Materials valued at Rs.88.00 million had been procured by the Project as at 31 December 2015 and allowed to use for operational and maintenance purposes of the National Water Supply and Drainage Board.

3.5 Unsettled issues highlighted in the previous audits

The Construction Industry Guarantee Fund Levy at 01 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.21.5 million made as at 31 December 2014.

3.6 Issues in Financial Controls

The following observations are made.

- (a) According to the Financial Regulation 133 and the Management Audit Circular No.05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board.
- (b) It was observed that the refundable deposits amounting to Rs. 4.00 million made at the Ministry of Higher Education and Highways had not been recovered even up to 31 December 2016. The defect liability period of the respective contract was expired on 03 October 2014 and the final completion certificate had also been issued.