

Improving Community - Based Rural Water Supply and Sanitation Project in Jaffna and Kilinochchi Districts - 2015

The audit of financial statements of the Improving Community - Based Rural Water Supply and Sanitation Project in Jaffna and Kilinochchi Districts 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 11 (a) of the Grant Agreement No. JFPR 9154 SRI dated 01 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant 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, Delft Pradeshiya Sabha, Valikamam South West Pradeshiya Sabha and Karachchi Pradeshiya Sabha are the Implementing Agencies of the Project. The objectives of the Project is to reduce poverty and improve the quality of life in post- conflict rural communities and returning internally displaced people in Jaffna and Kilinochchi districts through improved water supply and sanitation services. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$. 2.42 million equivalent to Rs. 268.26 million and out of that US\$ 2 million equivalent to Rs. 221.70 million or 83 per cent of the total cost was agreed to be financed by the Japan Fund for Poverty Reduction through Asian Development Bank and US\$ 0.26 million equivalent to Rs. 28.82 million or 11 per cent of the total cost was agreed to be financed by the Government of Sri Lanka. The balance of US\$ 0.16 million equivalent to Rs. 17.74 million or 06 per cent of total cost scheduled to be financed through Community Contribution. The Project commenced its activities on 01 August 2011 and scheduled to be completed by 30 June 2015. Eventhough the period of the Project had been extended only up to 30 September 2015, the financial statements of the Project for the year ended 31 December 2015 had been prepared and 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 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 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 Donor 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 Grant, etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Imprest Fund 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 (CBSL) as at that date.
- (e) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Grant 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 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (d) the opening and closing balances and withdrawals from and replenishments to the Imprest Fund 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 (CBSL) as at that date,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Grant Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of the Financial Statements

The financial statements of the Project for the year ended 31 December 2015 required to be submitted to the Auditor General on or before 31 March 2016, as per Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning. It had been submitted only on 28 July 2016.

2.2.2 Un-reconciled Balances

The following observations were made.

- (a) According to the financial statements of the National Water Supply and Drainage Board, the value of civil work-in-progress of the Project as at 31 December 2015 amounted to Rs. 2.6 million. However, according to the financial statements of the Project it was shown as Rs. 275.4 million. However, action had not been taken to reconcile the difference of Rs. 272.8 million.
- (b) According to the information furnished by the Ministry of City Planning and Water Supply, the expenditure of the Project shown under foreign component for the year 2015 amounted to Rs. 31.8 million. However, according to the financial statements of

the Project it was shown as Rs. 122.6 million. The difference of Rs. 90.8 million had not been reconciled.

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.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	2.00	221.70	125.00	0.91	124.60	1.95	259.80
GOSL	0.26	28.82	12.00	0.08	11.20	0.25	32.89
Community Contribution	0.16	17.74	-	-	-	-	-
	<u>2.42</u>	<u>268.26</u>	<u>137.00</u>	<u>0.99</u>	<u>135.80</u>	<u>2.20</u>	<u>292.69</u>

Eventhough Community Contribution valued at US\$ 0.16 million equivalent to Rs. 17.74 million had been identified in the Grant Implementation Manual, the value of contribution made by the beneficiaries for the activities of the Project had not been ascertained and brought to accounts.

3.2 Physical Progress

According to the progress reports of the Project, the overall physical and financial progress of the Project at the end of the year under review was reported as 99 per cent and 75 per cent respectively. Therefore, the Project had provided safe drinking water supply for 2,500 units of households and sanitary facilities for 645 units of households in Jaffna and Kilinochchi districts as at 31 December 2015.

3.3 Contract Administration

The following observations were made.

- (a) The works under the contract for the construction of sea water Reverse Osmosis Plant awarded in November 2014 at a cost of Rs. 55.5 million had been completed and handed over to the National Water Supply and Drainage Board on 30 June 2015. The Project had targeted to supply water connections to 400 units of households through the Plant. However, the water connections for 142 units of households only had been provided as at 30 September 2016.

Eventhough it was mentioned that 100 cubic metres per day could be produced by the Plant, the actual production recorded in February to September 2016 was remained at the range of 21 – 28 cubic metres per day.

- (b) According to the information received, the Community Based Organizations were formed by the Project in Mathagal, Shanthai, Vaddakchchi, Akkarayan and Iyakkachchi and a sum of Rs. 37.8 million spent thereon during the period of the Project. The following observations were made in this connection.
- (i) It was observed that only 01 Community Based Organization, out of 05 Community Based Organizations formed had registered even as at 31 October 2016 to obtain supports for technical, financial, sustainability and efficiency from the Department of National Community Water Supply under the Ministry of City Planning and Water Supply.
 - (ii) According to the hydro geological reports for the water supply systems of above mentioned Community Based Organizations, a full chemical test and bacteriological tests to be carried out once a month had not been carried out to ensure the quality of water.
- (c) According to the information made available, the construction works of a new well at Sarappidy commenced in 2015 had been abandoned halfway. However, action had not been taken to recover the advance payment of Rs. 597,065 made to the contractor thereon.

3.4 Closure of the activities of the Project

Eventhough the activities of the Project had been closed as at 30 September 2015, the Project had not taken action to hand over the assets and transfer the liabilities to the responsible authorities as enable to prepare wind up accounts even as at 31 December 2015.