

## **Anuradhapura North Water Supply Project -Phase 01 - 2016**

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The audit of financial statements of the Anuradhapura North Water Supply Project- Phase 01 for the year ended 31 December 2016 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 14 of Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency (JICA).

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

According to the Loan 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 objectives of the Project are to provide safe drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North area, thereby contributing to improve hygienic status and health condition in the area. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 6,817 million equivalent to Rs.11,515 million and out of that Japan Yen 5,166 million equivalent to Rs.8,726 million was agreed to be financed by the Japan International Cooperation Agency. The Project commenced its activities in February 2013 and scheduled to be completed by February 2018.

### **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 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in Loan Agreement.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether the 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 Loan 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Accounting Standards,

- (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 Loan Agreement,
- (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 Presentation of the Financial Statements**

According to the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the year ended 31 December 2016 are required to be submitted to the Auditor General on or before 31 March 2017. However, the financial statements of the Project had been submitted only on 14 June 2017.

### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) Value Added Tax aggregating Rs. 6.61 million had been set off against the proceeds of contribution of the Government of Sri Lanka instead of being shown under the work-in-progress. As a result, value of work-in-progress and contribution of the Government of Sri Lanka shown in the financial statements was understated by similar amount.
- (b) The work-in-progress valued at Rs.437.27 million shown in the financial statements of the Project for the year ended 31 December 2016 was not agreed with the corresponding value of work-in-progress amounting to Rs.431.92 million shown in the financial statements of the National Water Supply and Drainage Board.

## **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 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized during the year under review as at 31 December 2016			
	JPY million	Rs. million		Rs. million	JPY million	Rs. million	JPY million
JICA	5,166	8,726	75.00	76.04	98.91	369.46	446.44
GOSL	1,651	2,789	63.45	29.14	39.05	135.78	164.49
<b>Total</b>	<b><u>6,817</u></b>	<b><u>11,515</u></b>	<b><u>138.45</u></b>	<b><u>105.18</u></b>	<b><u>137.96</u></b>	<b><u>505.24</u></b>	<b><u>610.93</u></b>

It was observed that only Japan Yen 369.46 million equivalent to Rs. 446.44 million representing 7.15 per cent of total allocation of Japan Yen 5,166 million equivalent to Rs. 8,726 million had been utilized as at 31 December 2016 after lapse of 46 months, out of 60 months of the period of the Project. As per the paragraph 42 of the Expenditure Schedule of the Project Memorandum, Japan Yen 2,604 million was scheduled to be released as at 31 December 2016. Therefore, commitment charges amounting to Rs. 19.92 million had been charged as at 31 December 2016 by the Lending Agency on undisbursed balance of the Loan.

### 3.2 Physical Progress

According to the progress reports furnished by the Project, the overall physical and financial progress of the activities of the Project at the end of the year under review was 26.95 per cent and 5.77 per cent respectively. Eventhough the main construction contracts such as Intake Facility Water Treatment Plant, Ground Sump, Elevated Tanks, Mechanical and Electrical Works and Building Works under Lot A and Transmission Main and Sub Main Distribution Main under Lot B are scheduled to be completed by February 2018, procurement process including awarding of contracts had not been initiated even as at 30 June 2017. It was revealed in audit that the activities of the Project had shown slow progress due to lack of a comprehensive detailed action plan, highlighting financial and the physical targets with fixing responsibilities to the respective officers.

### 3.3 Contract Administration

The following observations are made.

- (a) According to the paragraph 2.2 of the Implementation Schedule of the Project Memorandum, the services of the Consultant for the Project activities was required to be obtained for the period from February to September 2013. However, the contract for consultancy service had been awarded only on 13 June 2014. As a result, all activities of the Project had been commenced with delays over 15 months.
- (b) The contracts for procurement and installation of Distribution System in Issinbassagala Distribution Zone under Lot C1 and East Rabewa, Ehtankada and Rabewa Distribution Zone under Lot C3 were scheduled to be awarded in May 2015 and commencement of the construction works in December 2015 respectively. However, contracts were awarded and construction works commenced in October and November 2016 respectively. Further, only pipe laying works of 4.1 kilometres, out

of 112.7 kilometres under the Issinbassagala Distribution Zone and 2.6 kilometres, out of 125.15 kilometres under the East Rabewa, Ehtankada and Rabewa Distribution Zone had been completed as at 31 December 2016. The period of completion of the activities under the contracts was revised up to April 2018 without considering the due dates of the completion of the activities of the Project.

### **3.4 Issues on Financial Control**

The following observations are made.

- (a) Eventhough the post of Project Accountant had been approved by the Department of Management Services on 19 December 2014, action had not been taken to fill this post even up to 31 August 2017.
- (b) Transactions of the Project had not been subjected to the Internal Audit Section of the National Water Supply and Drainage Board in terms of Financial Regulation 133 and the Management Audit Circular No.05 dated July 2010.