

Jaffna Kilinochchi Water Supply and Sanitation Project - 2018

The audit of the financial statements of Jaffna Kilinochchi Water Supply and Sanitation Project for the year ended 31 December 2018 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 4.05 of Article IV of the Loan Agreement No.2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated 08 February 2011 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning, Water Supply and Higher Education is the Executing Agency and the National Water Supply and Drainage Board, Provincial Irrigation Department of Northern Province and Local Authorities in the Northern Province are the Implementing Agencies of the Project. The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the areas of the Project and to protect and manage the water resources of the Jaffna Peninsula. As per the Loan Agreements, the total estimated cost of the Project under the components implemented by the National Water Supply and Drainage Board amounted to US\$ 147.45 million equivalent to Rs. 16,474.59 million. Out of that US\$ 76.45 million equivalent to Rs.8,541.76 million was agreed to provide by the Asian Development Bank and US\$ 48 million equivalent to Rs.5,363.04 million was agreed to provide by the Agence Francaise De Development. The balance of US\$ 23 million equivalent to Rs. 2,569.79 million required to be contributed by the Government of Sri Lanka. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 August 2017. Subsequently, period of the Project had been extended up to 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit

2. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency	Amount Rs. Million	Impact	Comments of the Management	Auditor's Recommendation
(a) Interest charges and commitment charges recovered by the Lending Agency up to 31 December 2018 had not been brought to the financial statements of the Project.	Interest charges of 173.03 and Commitment charges of 23.39	Understatement	The treasury keeps records on interest and commitment charges.	The respective cost should be brought to account as enable to reflect the total disbursements under the Project at the end of the year under review.
(b) The motor vehicles procured during the year under review had been accounted under civil works.	19.73	Overstatement of the value of civil works	Not commented.	Need to be recognized in the non-current assets based on different lifetimes of the assets.
(c) The cost of the motor vehicle transferred from other Donor Funded Projects had not been brought to the financial statement.	8.71	Value of assets not recorded.	Not commented.	The value of assets used by the Project need to be reflected in the financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	Physical Progress as at 31 December 2018		Impact	Comments of the Management	Auditor's Recommendation
		Expected	Achieved			
Development of water and sanitation infrastructure	Construction of water tower at Poomaiveli, Nainathive, Karavaddy,	03 water tower	Nil	Possible increase of costs of the Project		Prompt action need to be taken to minimize the cost of the Project.
	Laying of distribution Network in Palai, Kodikamam, Meesalai, Poonkary, Puttur, Karaingar, Nawathpuli,	250km	Nil	-Do -	The contract awarded in October 2018 and not commenced the works as at 31 December 2018.	- Do -
	Laying of distribution line in Jaffna City Area	283Km	Nil	-Do-	Action will be taken to award the contract	.-Do-
	Construction of Chunnakan Water Supply Scheme	The contract is not awarded even as at 31 August 2019.		-Do -	Action will be taken to award the contract	-Do- .
	Construction of Sewerage treatment plant and laying sewer Mains.	Works under this activity was not commenced.		The objective of the Project would not be achieved.	The Lending Agency had taken action to remove the allocation under this activity.	The benefits of the Project had not been received to the beneficiaries.

Strengthen Water Management	Jaffna Resource	Iranamadu Tank Head Works including high lift irrigation rehabilitation of the downstream.	Works under this Component was not commenced.	The works under this component was remained delay, due to public protest of sharing water of Iranamadu Tank. A sea water reverse osmosis plant is proposed to be installed as a water source.	The matters such as additional cost to be incurred, availability of the technology and the time wastage etc need to be considered.
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3.2 Contract Administration

The following observations are made.

Audit Issue	Impact	Comments of the Management	Auditor's Recommendations
(a) The pipe laying works of 35 kilometres only had only been completed under the contract for the supply and laying of Treated Water Transmission Main- Part 01 awarded in 2016 , out of the estimated length of 42.8 kilometers required to be completed as at 31 December 2018. Further, the pipe laying works of 128 kilometers had been completed under the contract for the supply and laying of Treated Water Transmission Main- Part 02 awarded in 2016 out of the estimated length of 144 kilometers of pipe laying works to be completed. It was observed that a proper ground surveys had not been carried out before awarding of the contracts.	Possible for overrunning of costs, due to poor monitoring mechanism applied by the Project.	In the pipe laying area unexpected lime stone stretches are identified. As a result, the additional works of lime excavation need to be carried out.	Action need to be taken to negotiate with the contractor and minimize the cost overrunning of cost due to changes of the scope of works.
(b) In order to provide water supply for Jaffna Kilinochchi Region the construction of sea water reverse osmosis plant had been scheduled to be completed in 2022. The construction works of 15 water towers at a cost of Rs. 1,140 million and water transmission pipe laying at a cost of Rs. 5,536 million completed as at 31 December 2018 had remained idle up to completion of works of sea water reverse osmosis plant.	Intended benefits will not been received to the stakeholders in timely manner.	Not commented	Capacity of Irranamadu tank had been increase by other Project. Need to consider the use of water for other purposes.
(c) Although the activities of the Project were not completed, repayment of the Loan had been commenced in 2017. According to records	Due to delays in completion of the works additional	Not commented	The NWSDB should take action to monitor the activities of the project to ensure the

maintained by the Department of External Resources, US\$ 164,564 repayment had been made to the Lending Agency up to 31 December 2018.

expenses would be incurred. effective use of fund received from the Lending Agency.

3.3 Issues Related to Human Resources Management

Audit Issue	Impact	Comments of the Management	Auditor's Recommendations
(a) A post of Electrical Engineer and 04 Engineering Assistants had remained vacant at 31 December 2018.	The implementation of the activities of the Project would be affected.	Not commented.	Need to take action to adequate staff for the Project.
(b) According to the Paragraph 2.3.2 of the Management Circular No 01/2016 of 24 March 2016, the Project Director need to be deployed in full time basis in order to ensure effective operations of the activities of the Project. However, contrary to the above mentioned provisions the Deputy General Manager of the Northern area National Water Supply and Drainage Board had been appointed as the Project Director since April 2018 to cover up the duties.	The monitoring mechanism of the activities of the Project would be weaken.	The Engineer appointed as Deputy Project Director spends 03 days duties at project office and works in the weekend.	The Project Director is required to be deployed in full time basis as enable to undertake responsibilities on implementing the activities of the Project in effective manner.