

## **Secondary Towns and Rural Community Based Water Supply and Sanitation Project (Loan No 2758 – SRI- SF) 2015**

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The audit of financial statements of the Secondary Towns and Rural Community Based Water Supply and Sanitation Project for the period of 13 months from 01 January 2015 to 31 January 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 2.09(a) of Article (II) of the Loan Agreement No.2758 SRI(SF) dated on 22 July 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 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 water to 52,000 people in Muttur urban area of the Eastern Province and increase the capacity to provide safe water by strengthening the water sector institutions. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 17.87 million equivalent to Rs.1,942.47 million and out of that, US\$ 13.3 million equivalent to Rs.1,445.71 million was agreed to be financed by Asian Development Bank. The activities of the Project were initially scheduled to be completed by 30 June 2014 and subsequently, it was extended up to 31 July 2015. However, the financial statements of the Project had been prepared up to 01 January 2016 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 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 opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 January 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (f) Whether the funds, materials and equipment supplied under the Loan 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 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.

## **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 period ended as at 31 January 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 January 2016 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

### 3. **Financial and Physical Performance**

#### 3.1 **Utilization of Funds**

Certain significant statistics relating to the financing budgetary provision and utilization of funds during the period under review and up to 31 January 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the period under review	Funds Utilized		
	US \$ million	Rs. million	Rs. million	during the period under review	as at 31 January 2016	
					US \$ million	Rs. million
ADB	13.30	1,445.71	Nil	21	10.06	1,280
GOSL	4.57	496.76	5.86	59	3.68	435
<b>Total</b>	<b><u>17.87</u></b>	<b><u>1,942.47</u></b>	<b><u>5.86</u></b>	<b><u>80</u></b>	<b><u>13.74</u></b>	<b><u>1,715</u></b>

According to the above information, US \$ 10.06 million equivalent to Rs 1,280 million had only been utilized by the Project at the date of the Loan closing on 31 January 2016, out of the total allocation of US\$ 13.30 million equivalent to Rs.1,445.70 million made.

#### 3.2 **Physical Progress**

According to the information received, the construction works of the Head Works, Raw Water Transmission and Treatment Plant at Muttur had been completed in 2014 with delays over 11 months from the original date of completion and incurred an additional cost of Rs 11.62 million as price escalations made during the delayed period. However, it was observed at the physical inspections made in October 2016 that the water intake built at Muttur is exposed to intense erosion and possible damages to the constructions.

#### 3.3 **Extraneous Expenses**

Salaries of the employees of other donor funded project aggregating Rs 3.96 million paid by the Project during the period under review had been accounted as the expenses of this Project.

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

According to the Financial Regulation 133 and Management Audit Circular No.DMA/2010(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.

### **3.5 Closure of the Activities of the Project**

Even though the activities of the Project had been closed on 31 January 2016, the Implementing Agency had not taken action to take over the assets of the Project as enable to wind up the accounts. Further, it was observed that a Fixed Assets Register had not been maintained as per the Treasury Circular No 842 dated 19 December 1978 and no Board of Surveys had been carried out at the end of the period of the Project .