

Eastern Province Water Supply Development Project - 2017

The audit of financial statements of the Eastern Province Water Supply Development Project for the year ended 31 December 2017 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 4.08(a) of Article III of Loan Agreement No. SL-P 98 dated on 26 March 2010 entered between Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comment and observation which consider should be reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Memorandum of the Project, then Ministry of Finance and Planning, presently the Ministry of Finance and Mass Media 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 expanding water supply facilities in the Eastern Province and thereby contribute to improve living standards of the people of the area. As per the Loan Agreement, the total estimated cost of the Project amounted to Japan Yen 6,054 million equivalent to Rs. 7,703 million and out of that Japan Yen 4,904 million equivalent to Rs. 6,239 million was agreed to be provided by Japan International Cooperation Agency. The Project commenced its activities in July 2010 and scheduled to be completed by December 2013. Subsequently, the period of the Project had been extended up to 23 January 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 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 identification 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 financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (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 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, 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 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

As per the Ministry of Finance and Planning Circular No. MOFP/ERD/2007/2 of 07 August 2007 the financial statements of the Project for the year ended 31 December 2017 required to be submitted to the Auditor General on or before 31 March 2018. However, the financial statements for the year under review had been submitted to the Auditor General on 10 September 2018.

2.2.2 Accounting Deficiency

Value Added Tax aggregating Rs.656.60 million paid up to 31 December 2017 had been set off against the contribution received from the Government of Sri Lanka.

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 upto 31 December 2017 are shown below.

Source of Fund	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>	
	JPY million	Rs. million		during the year under review	as at 31 December 2017
	JPY million	Rs. million	Rs. million	Rs. million	Rs. million
JICA	4,904	6,239	-	-	5,315
GOSL	1,150	1,464	32.20	32.20	619
Total	<u>6,054</u>	<u>7,703</u>	<u>32.20</u>	<u>32.20</u>	<u>5,934</u>

3.2 Physical Progress

As per the Project Memorandum of Eastern Province Water Supply Development Project, the rehabilitation works of 09 water supply scheme at Kondawatuwana, Pothuvil, Uhana, Damana, Hingurana Irakkamum, Samanthurai, Dehiyaththakandiya and Mahaoya in the Eastern Province were scheduled to be carried out. According to the progress reports, the respective activities of the Project were substantially completed as at 31 December 2018. The following observations are made therein.

- (a) Out of the pipe laying works of 28 kilometres from Kondawatuwana to Kalmunai under the Kondawatuwana Water Supply Scheme, only the pipe laying works of 25 kilometres had been completed at the end of the period of the Project. In addition, only the laying works of 48 kilometres of distribution pipe had been completed as at 31 December 2018, out of the pipe laying works of 80 kilometres was expected to be completed under Maha Oya Water Supply Scheme.
- (b) Eventhough the Project had invested a sum of Rs. 185.62 million to rehabilitate the Dehiyaththakandiya Water Supply Scheme to provide safe and treated drinking water, the people living in the area had faced with difficulties to obtain drinking water, as the ground water in the area contains with high proportion of fluorides and phosphate. According to the information received, the Project had not completed works of laying of 78 kilometres of water transmission pipe lines and 68 kilometres of water distribution lines as at 31 December 2018, as per the project implementation schedule of the Water Supply Scheme. It was observed at the field inspections made on 03 December 2018 that the water pumps installed at Ellakotaliya pump house at a cost of Rs. 12.13 million to transmit water to Dehiyaththakandiya treatment plant were not functioned properly and required labor force to the scheme was not deployed thereon by the Implementing Agency.

3.4 Underutilized Assets

Panama Water Supply Scheme in Ampara district completed by the Project at a cost of Rs. 253.83 million had remained idle since September 2016, due to shortage of continuous water supply from the selected water source.

3.5 Issues on Financial Control

The following observations are made.

- (a) The transactions of the Project during the year under review were not subject to the Internal Audit Section of the National Water Supply and Drainage Board as per the Financial Regulation 133 and the Management Audit Circular No. 05 of 26 July 2010 of the Department of Management Service.
- (b) As per the financial statements of the Project, the proceeds of the Loans received from Lending Agency amounting Rs. 5,311.09 million had been segregated and shown in the financial statements as a Loan of Rs. 1,384.25 million and a Grant of Rs. 3,926.83 million. However, no subsidiary Loan Agreement had been entered into thereon even 31 December 2017.

- (c) According to the Financial Regulation 626, accounts of each project should be prepared based on separate accounting records of the project maintained in accordance with generally accepted accounting principles. However, a single cash book to record the receipt and payments of all donor funded project implemented by the National Water Supply and Drainage Board had been maintained.

- (d) The Register of Fixed Assets of the Project had not been maintained in updated manner, as required by Treasury Circular No. 842 of 19 December 1978.