

Greater Colombo Water Rehabilitation Project - 2017

[The audit of financial statements of the Greater Colombo Water Rehabilitation 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 4.03(a) of Article IV of the Subsidiary Loan Agreement No. SL-P 90 dated 03 September 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the National Water Supply and Drainage Board. This Project is implemented under the Loan Agreement No. SL-P 90 dated 28 March 2007 entered into between Japan Bank for International Cooperation presently, known as Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka. 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 Loan Agreement 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 is the Implementing Agency of the Project. The objectives of the Project are to rehabilitate and enhance the water supply in the city of Colombo and Kotikawatta – Mulleriyawa area by constructing a new office building complex and a new reservoir at Maligakanda, constructing a reservoir at Elia House, improving water supply system at Kotikawatta and Mulleriyawa and providing water connections in selected tenement gardens in Colombo. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 5,359 million equivalent to Rs. 4,785 million and out of that Japan Yen 3,975 million equivalent Rs. 3,549 million was agreed to be provided by the Japan International Cooperation Agency and the balance sum of Japan Yen 1,384 million equivalent to Rs. 1,236 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 27 November 2007 and scheduled to be completed by January 2012. Subsequently, the period of the Project had been extended up to 20 June 2017.

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 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.

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 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Value Added Tax amounting to Rs.481.11 million paid up to 31 December 2017 had been set off against the contribution received from the Government of Sri Lanka.

2.2.2 Non-compliance with Laws, Rules and Regulations

The period of the Project had been extended twice up to 20 June 2017, due to delays in completion of the activities of the Project. Further, it was observed that a sum of Rs.346.59 million had been transferred to a private Bank Account of the contractor after being closure of the Loan on 20 June 2015 to meet the cost on completion of balance construction works. However, the approval from the External Resource Department had not been obtained thereon. According to the above payment mechanism the contractor was required to submit monthly bank statement to the Project with payee details. However, the contractor had not submitted the monthly bank statement of the respective Bank Account.

2.2.3 Un-reconciled Balances

As per the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2017 amounted to Rs. 3,396.95 million. However, according to the financial statements of the Project, the corresponding value of work-in-progress amounted to Rs. 3,393.55 million as at 31 December 2017.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgeting and the utilization of funds during the year under review and cumulative fund utilization as at 31 December 2017 are shown below.

Source of funds	Amount agreed for financing according to 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 2017	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	3,975.00	3,549.00	Nil	Nil	Nil	3,138.00	4,152.00
GOSL	1,384.00	1,236.00	Nil	11.12	14.56	858.26	1,135.60
Total	<u>5,359.00</u>	<u>4,785.00</u>	<u>-----</u>	<u>11.12</u>	<u>14.56</u>	<u>3,996.26</u>	<u>5,287.60</u>

According to the above information, out of the allocation of Japan Yen 3,975 million, equivalent to Rs. 3,549 million made in the Loan Agreement, Japan Yen 3,138 million equivalent to Rs. 4,152 million had only been utilized at the end of 10 years from the date of the Agreement of the Project. Eventhough no funds had been allocated in the Budget Estimate for the year 2017, a sum of Rs. 14.56 million had been spent during the year under review to implement the activities of the Project.

3.2 Physical Progress

According to the progress reports furnished by the Project, the activities such as construction buildings and reservoirs and providing of water connection etc, under the Project had been substantially completed at the end of the year under review.

3.3 Unsettled Audit issues highlighted in the previous audit

The following observations are made in the audit report of the previous year had been remained un settle even as at the end of the year under review.

- The refundable deposits valued at Rs. 11.90 million placed at the Provincial Road Development Authority in 2013 for road reinstatement works had not been recovered even as at 31 December 2017, eventhough the validity period of the deposits was expired.
- The Project had procured a land on lease basis from the Divisional Secretarial of Kollonnawa in 2001 for construction of a water tower and office building and a sum of Rs. 5.17 million paid up to 31 December 2017 without entering into a lease agreement.

3.4 Issues on Financial Control

The Register of Fixed Assets had not been maintained by the Project in updated manner, as required by Circular No. 842 of 19 December 1978 of Ministry of Finance and Planning.