

Eastern Province Water Supply Development Project - 2018.

The audit of the financial statements of Eastern Province Water Supply Development Project for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried 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 Bank of International Cooperation presently known as 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 Project Memorandum of the Eastern Province Water Supply Development Project, then National Planning Department of Ministry of Finance and Planning, is the Executing Agency of the Project and the Eastern Provincial Council is responsible to implement small or rural water supply projects within the local authority areas and the National Water Supply and Drainage Board is the responsible to implement large scale pipe borne water supply projects to provide safe drinking water by constructing and expanding water supply facilities. As per the Loan Agreement, the total cost of the Project was 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. Further, Japan Yen 5,130 million equivalent to Rs. 6,527 million had been allocated for Ampara District Water Supply Project and for that purpose Japan Yen 4,140 million equivalent to Rs. 5,267 million agreed to be financed by the Japan International Cooperation Agency.. The Project commenced its activities on 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 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	Impact	Response of the Management	Auditor's Recommendation
(a) Value Added Tax amounting Rs.656.60 million paid up to 31 December 2017 had been set off against the contribution received from the Government of Sri Lanka.	Understatement of the contribution of Government of Sri Lanka.	As a practice, the Value Added Tax is set off against the source of funds received by the Project from Government of Sri Lanka.	The total contribution from the Government of Sri Lanka is required to be shown in the financial statement.
(b) The Interest charges amounting to Rs 91.45 million and commitment fees amounting to Rs 25.47 million recovered by the Lending Agency up to 31 December 2016 had not been brought as the work- in -progress of the Project.	Understatement the value of work-in- progress .	The Interest payment and commitment fees are recorded in the books of the General Treasury since the liability of such payments rests them.	The respective cost need to should be brought to account as enable to reflect the total disbursements under the Project at the end of the year under review.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Description	Physical Performance as at 31 December 2018		Impact	Comments of the Management	Auditor's recommendation
	Expected	Achieved			
Pipe laying works from Kondawatuna to Kalmunai	28 Kilometres	25 Kilometres	The objective of the Project would not be achieved.	The shortage of 03 kilometres had been occurred due to re-rooting of pipe line according to the RDA requirement	The requirements needed to be identified at the early stages as enable to utilize the borrowed funds effectively.
	80				
Maha Oya Water Supply Scheme	78	48		No comments received.	
Dehiyaththakandiya Water Supply Scheme		68		Before design stage, part of the works had been completed by the National Water Supply and Drainage Board through another contract	

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Panama Water Supply Scheme in Ampara district completed by the Project at a cost of Rs. 253.83 million had remained idle since 30 September 2016 due to unavailability of water source.	Construction cost of Rs.253.83million become fruitless expenditure	Agreed. There is a shortage of water treatment plant in drought season and theWater Supply and Drainage Board is searching for alternative source.	The Implementing Agency need to be taken action to monitor the activities of the Project to ensure the effective use of funds invested.

3.3 Matters in contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's recommendation
<p>(a) It was observed that a sum of Rs. 751.40 million had been transferred to a private Bank Account of 03 contractors after being closure of the Loan on 15 June 2016 to meet the cost on completion of balance works of the construction. As a result, the construction works had been implemented by the contractor without being considered the scope of the works of the determined at the initial stages.</p> <p>Further, monthly bank statement to be submitted to the Project by the contractor with the report on payments made had not been submitted</p>	Possibility to misuse of funds by the contractor due to weaken controls thereon.	<p>These funds were transferred to Bank Accounts due to lapse of loan period of the Loan. All contracts were performed according to the scope of the work.</p> <p>Monthly monitoring of Bank Statement is not needful since these Bank Accounts are remained under the custody of the National Water Supply and Drainage Board.</p>	The mechanism for monitoring of the activities the Project need to be strengthen to avoid wastages and misuses.

- (b) As per the Project Memorandum dated 28 June 2010, the contribution from the Government of Sri Lanka amounting to Rs.990 million had only been allocated for the Project. However, according to the financial statement, the proceeds of the contribution from the Government of Sri Lanka amounted to Rs. 1,281.52 million as at 31 December 2018 indicating that the increase of cost of the Project with additional burden to the Government of Sri Lanka
- Possibility to bear Project estimates were prepared 02 - do - additional burden to the years back and the Project was Government of Sri Lanka. completed in 2017. The allocation of treasury has been revised accordingly

3.4 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The Register of Fixed Assets had not been maintained by the Project in updated manner, as required by treasury circular No. 842 of 19 December 1978 of the Ministry of Finance and Planning.	Possibility to misuse of assets and facing difficulties in handing over of assets at the end of the period of the Project.	Agreed. It is advised to maintain an Inventory Register for the projects	Need to recognize the assets procured by Project and update the Fixed Assets Register.