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## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



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எனது இல.  
My No.

WSS/A/WASSIP/4/19/FA

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

25 September 2020

The Secretary

Ministry of Water Supply

### Report of the Auditor General on the Financial Statements of the Water Supply and Sanitation Improvement Project for the year ended 31 December 2019

#### 1. Financial Statements

##### 1.1 Qualified Opinion

- a. The audit of financial statements of the Water Supply and Sanitation Improvement Project for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 the Schedule II, Section II (C) (3) of the Financing Agreement No. 5685 – LK dated 06 November 2015 and Article 4.09 (b) of the General Conditions of the Credit and Grants of the International Development Association dated 31 July 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.
- b. In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.



## 1.2 Basis for Qualified Opinion

- c • As per the section 38 of the Project appraisal document, community contribution of Rs. 38.26 million for the rural and estate water supply schemes and Rs. 1.3 million for rural water supply rehabilitation schemes had not been brought to the financial statements. As a result, balance of the community contribution shown in the financial position had been understated by Rs. 39.56 million.
- d • As per the records of Department of External Resources, US\$ 90 million equivalent to Rs.16,346.7 million had been disbursed by the Lending Agency as at 31 December 2019 and corresponding amount had been shown as Rs.14,392.03 million only in the financial statement of the Project. As a result, proceed of the Loan had been understated by Rs.1,954.67 million in the financial statements.
- e • Cost of 10 completed and commissioned rural water supply and rehabilitation projects to the value of Rs.221.80 million had been shown under the work-in-progress without being capitalized as at 31 December 2019.
- g • Eventhough the cost of completed lavatories at the end of the year under review was Rs. 532.91 million, a sum of Rs. 273.53 million had only been capitalized as at 31 December 2019. As a result, development expenditure on water supply and sanitation infrastructure had been understated by Rs.259.38 million in the financial statements.

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

### 1.3 Other Information on Performance of the Project

The other information as stated below does not included in the financial statements and my opinion thereon does not cover the other information.

- The activities of the Project comprised with 04 components namely, rehabilitation and expansion of urban, rural and estate water supply and sanitation schemes, strengthening of the capacity of the Department of National Community Water Supply, building of sector capacity through training and water quality mapping and Project management and administration. The activities of the Project were implemented in Nuwaraeliya, Kegalle, Kilinochchi, Mullativu, Ratnapura, Badulla and Monaragala districts. As a common feature, the physical progress on development works of urban water supply schemes, rural water supply schemes, rehabilitation schemes and urban sanitation schemes implemented by the Project remained behind the targets, due to improper identification of project duration, poor performances of the several contractors, environmental and resettlement issues and delays and quality issues of pipes supplied. The following observations are made thereon.
  - a - It was observed that 04 urban water supply schemes awarded at a cost of Rs.3,630.41 million during the year 2017 and 2018 had reported delays ranging from 150 days to 415 days as at 31 May 2020. Further, 06 rehabilitation water supply projects and 07 rural water supply project awarded at a cost of Rs.776.6 million during 2017, 2018 and 2019 in Kegalle, Badulla, Nuwaraeliya, Rathnapura and Monaragala districts also reported delays ranging from 83 days to 320 days as at 30 March 2020.
  - b - Four construction contracts awarded in respect of public convention center sanitations at a cost of Rs.62.32 million scheduled to be completed by 27 January 2020. However, it had reported delays ranging from 36 days to 273 days as at 30 March 2020. Further, an indigenous community sanitation contract in Dambana Region and a Special need beneficiaries sanitation contract in Kegalle district had reported a delays of 73 days and 90 days respectively as at 30 March 2020.

- c - The contract awarded for the water supply scheme of Manthreethanna in Nuwara-Eliya district at a cost of Rs.25.5 million scheduled to be completed by 09 December 2017. Subsequently, the contract had been terminated after completing 70 per cent of the works, due to poor performance of the contractor. Completion of the balance works had been awarded on 29 August 2019 to another contractor and such contractor also failed to complete the contract even by 30 March 2020, eventhough the date of completion was 11 December 2019.
- The civil works contract awarded for the water supply project at Ponnagar Pathipuram at Kilinochchi district at a cost of Rs.216.93 million scheduled to be completed on 20 October 2018. Subsequently, the contract had been terminated, due to poor performance of the contractor even 31 per cent of works only had been completed. Further, completion of the balance works had been awarded on 15 November 2019 to the other contractor and schedule to be completed on 28 November 2020. However, the contractor had completed 2 per cent of the works only even as at 31 March 2020.
- Rehabilitation contract for Kaudawa and Dombagahawela water supply project in Monaragala district schedule to be completed by 22 December 2019 had been terminated after completion of 75 per cent of works, due to poor performance of the contractor. However, the balance works had not been awarded even by 30 March 2020.
- d - It was observed that extension of time had been given to the contractors who engage in 10 water supply projects ranging from one to six instances for the same project even exceeding the original contract period and allowing to keep the mobilization advances amounting to Rs.105.19 million with the contractors without being utilized for activities of the Project.
- e - As per the action plan of the Ministry Water Supply for the year under review, Badulla - Haldummulla water supply scheme scheduled to be commenced during the year under review. In this connection expenditure of

Rs.7.06 million had been spent for the land acquisition, soil testing and research activities etc. during the year 2018 and 2019. However, contract had not been awarded even by 31 July 2020.

- f - The contract awarded on 23 May 2018 for Badulla Diyathalawa Water Supply Scheme at a cost of Rs.337.44 million scheduled to be completed within 12 months period and the contractor had been failed to commence the project activities within 42 days from the date of Letter of Acceptance given to the contractor, even after paying mobilization advances of Rs. 57.65 million on 06 May 2019. The physical progress of the scheme remained at 5 per cent as at 29 October 2019 and allow to keep the mobilization advance with the contractor. Further, the contract had been terminated and letter of demand had been sent to the bank on 31 January 2020 by the Secretary of the Line Ministry to encash the performance bond and advance guarantee, due to poor performance of the contractor. However, without encashing performance bond and advance guarantees the validity period had been extended by the Secretary to Line Ministry after seven months.
- g - It was observed that out of 25,420 of lavatories scheduled to be constructed in the above mentioned 07 district during the period of Project, only 13,098 lavatories had only been completed at the end of the year under review. Further, out of 3,896 lavatories in Badulla district and 3,937 lavatories in Nuwara Eliya district scheduled to be constructed at the end of the year under review, 2,221 of lavatories in Badulla and 1,065 in Nuwara Eliya district representing 57 per cent and 27 per cent respectively had been completed at the end of the year under review.
- As per the initial plan of the Project, 31 institutional sanitation units and 491 special need beneficiary sanitation units are scheduled to be completed at the end of the year under review. However, no single number of units had been completed even as at 31 December 2019.

- h • Liquidated damages amounting to Rs.2.75 million deducted from 3 contractors during 2018 and 2019 had not been credited to consolidated fund even as at 31 July 2020 in terms of Section 170 (3) of Financial Regulations of Democratic Socialist Republic of Sri Lanka.
- h • The cadre of the Project Monitoring Unit consisted with 27 positions. Out of that 57 vacancies of 15 positions including key posts such as Deputy Project Director, Engineer and Sociologist had remained unfilled for over 4 years as at 31 December 2019. Further, the Project had deployed 135 employees from the outside institutions contrary to the provision stipulated in the Circular No. 01/2019 of 15 March 2019 of the Department of Management Service and remuneration aggregating Rs.57.93 million had been paid during the year under review. Out of that 24 employees had been deployed for 08 positions such as Quantity Surveyor, Draftsmen, Land officer, Site Supervisor which had not been approved by Department of Management Service.

#### 1.4 Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view 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's 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 record of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

### 1.5 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 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 risk 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 the Project's internal control.

- 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. Report on Other Requirements of the Donor Agency

As required by the International Development Association, I state the following:

- (a) The basis of opinion and scope and limitations of the audit are stated as above.
- (b) In my opinion:
  - except for the effect of the matters described in the Basis for Qualified Opinion section of my report, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Project,
  - the funds provided had been utilized for the purposes for which they were provided,
  - 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,
  - the opening and closing balances, 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 December 2019 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,





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

W.P.C Wickramaratne

Auditor General

