

## **Global Partnership on Output-based Aid Project - 2017**

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The audit of financial statements of the Global Partnership on Output-based Aid 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 11 (B) of the Grant Agreement No. TF099870 dated 27 December 2011 entered between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Grant Agreement of the Global Partnership on Output-based Aid 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 improve sanitation services to low-income households in the Greater Colombo area by increasing the sewerage house connections of the sewerage networks and improving on site sanitation services at household level. As per the Grant Agreement, the estimated total cost of the Project amounted to US \$ 13.10 million equivalent to Rs.1,559 million and out of that US \$ 5.08 million equivalent to Rs.583.66 million was agreed to be provided by the International Bank for Reconstruction and Development Bank and International Development Association. The Project commenced its activities in December 2011 and scheduled to be completed by 31 December 2015. Subsequently, the period of the Project had been extended twice up to 31 December 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 Sri Lanka Accounting Standards 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 Donor 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 Grant, etc
- (d) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement,
- (e) Whether the funds, materials and equipment supplied under the Grant 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 Sri Lanka Accounting Standards,
- (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 Grant 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 Sri Lanka Accounting Standards,
- (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 Grant 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 Grant Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Presentation of financial statements**

The financial statements for the year ended 31 December 2017 required to be submitted to the Auditor General on or before 31 March 2018 as per the Circular No.MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning had been submitted only on 04 July 2018.

### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) Value Added Tax aggregating Rs. 132.06 million paid as at the end of year under review had been charged against the contribution received from the Government of Sri Lanka instead of being shown under the work-in-progress.
- (b) The reimbursable foreign grant amounting to Rs.27.96 million received on 07 December 2017 had not been brought to the accounts
- (c) The works carried out under the contract for simplified conventional extension and certified at a cost of Rs 233.58 million had been shown in the financial statements as Rs.214.89 million.

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

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision and the utilization of funds for the year under review and funds utilization up to 31 December 2017 are given below.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year under review	<u>Fund Utilized</u>			
	US \$ million	Rs. million	Rs. million	During the year under review		Up to 31 December 2017	
				US\$ million	Rs. million	US\$ million	Rs. million
Grant	5.08	583.66	300.00	0.84	128.10	2.31	340.76
GOSL	6.80	835.20	99.74	0.59	90.07	3.18	442.23
NWS&DB	1.04	119.46	30.00	0.36	55.64	3.37	471.65
Beneficiaries	0.18	20.68	–	0.02	2.63	0.22	32.33
<b>Total</b>	<b><u>13.10</u></b>	<b><u>1,559.00</u></b>	<b><u>429.74</u></b>	<b><u>1.81</u></b>	<b><u>276.44</u></b>	<b><u>9.08</u></b>	<b><u>1286.97</u></b>

According to the above information, out of the proceeds of total Grant agreed amounting to US\$ 5.08 million equivalent to Rs.583.66 million, only US\$ 2.31 million equivalent to Rs.340.76 million representing 45.47 per cent had been utilized as at 31 December 2017 after a lapse of 06 years from the date of commencement of the activities of the Project. Therefore, the possibility of utilization of the balance amount of allocation within the remaining period of the Project is remained in doubt, due to poor performance of works under the contract on On-site Sanitation Improvements.

### 3.2 Physical Progress

According to the information received, the activities of the Project under the components of direct sewerage connections, conventional sewer extensions, and providing of simplified sewer connections and new decentralized networks had been substantially completed as at 31 December 2017. However, activities under the component of On-site Sanitation Improvements had shown a slow progress as at 31 December 2017 due to delays in awarding of contract and poor performance of the contractor.

### 3.3 Contract Administration

The following observations are made.

- (a) The contract for On-site Sanitation Improvement works had been awarded to a contractor on 16 May 2016 to supply and install 3,785 Treatment Units and construction of 1,135 lavatories in Dehiwala, Moratuwa, Kolonnawa and Ja-Ela areas by 31 August 2017. However, only 556 Treatment Units had been supplied and installed whilst completion of only 205 lavatories as at 31 December 2017. The reasons such as shortage of labour force and poor performance of the contractor on manual fabrication works of Treatment Units etc had caused delays in implementation of the works under the respective component. As a result, the Project had taken action to award fresh contracts to 04 other contractors in 2018 to install Treatment Units to mitigate the delays occurred.

- (b) In addition, the plans to provide sanitation facilities for 950 families living in the areas under purview of Divisional Secretariat of Kolonnawa and the construction of 285 lavatories in the respective area had been abandoned due to poor demand of the residents of the area. It was observed that Project had incurred an administration cost of Rs.2.13 million thereon as at 31 December 2017 .

**3.4 Matter in Contentious Nature**

The mobilization advance amounting to Rs.88.40 million had been granted in July 2016 to the contractor involved on contract for providing of On-site Sanitation facilities expected to be recovered by 31 August 2017. However, a balance of mobilization advances amounting to Rs 68.25 million had remained outstanding as at 31 December 2017.