

Sanitation and Hygiene Initiative for Towns Project (Phase-01) - 2017

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project (Phase – 01) in South West Sri Lanka 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 3.4.3 (h) of the Loan Agreement No.CLK 1013 – 01 K of 01 June 2016 and Grant Agreement No. CLK 1013 – 02 L of 16 March 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise de Development. 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 and Grant Agreements of the Project, the 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 extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people, facilitate access to the service for disadvantaged households through the development of pro-poor policies and strategies and preserve the coastal and marine ecosystems and maintain biodiversity. The estimated total cost of the Project amounted to Euro 107.7 million equivalent to Rs. 18,739.81 million and out of that Euro 76 million equivalent to Rs. 13,224 million was agreed to be financed by the Agency Francaise de Development as a Loan and Euro 5.7 million equivalent to Rs. 991.81 million as a Grant. The balance of Euro 26 million equivalent to Rs. 4,524 million is scheduled be provided by the Government of Sri Lanka. The Project commenced its activities on 01 June 2016 and scheduled to be completed by 30 June 2022.

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 identifications of the purchases made out of the Loan and Grant, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan and Grant Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loan and 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 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 and Grant Agreements 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 and Grant Agreements,
- (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 and Grant Agreements had been complied with.

2.2 Comments of Financial Statement

2.2.1 Presentation of Financial Statements

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 as per the Ministry of Finance and Planning Circular No. MOFP/ERD/2007/2 dated 07 August 2007 had been submitted on 31 December 2018.

2.2.2 Accounting Deficiencies

Value added Tax amounting to Rs. 624,405 paid up to 31 December 2017 had been set off against the Contribution received from the Government of Sri Lanka.

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.26.34 million. However, according to the financial statements of the Project, the corresponding value of work- in-progress amounted to Rs. 22.26 million.

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 up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan and Grant Agreements		Allocation made in the Budget Estimate for the year under review	Funds Utilization	
				during the year under review	as at 31 December 2017
	Euro million	Rs. million	Rs. million	Rs. million	Rs. million
AFD - Loan	76.00	13,224.00	-	-	-
Grant	5.70	991.81	300	-	-
GOSL	26.00	4,524.00	300	24.77	28.16
Total	<u>107.70</u>	<u>18,739.81</u>	<u>600</u>	<u>24.77</u>	<u>28.16</u>

3.2 Physical Progress

According to the Project documents, the activities of the Projects are scheduled to be implemented under 03 components namely, improvement of sanitation infrastructure in Negombo area, the formulation of sewerage policy and designing of sanitation infrastructures in Negombo, Galle and Kelaniya areas etc. Under the respective Component of the Project, the activities for consultancy services on policy and institutional enhancement, the sewerage management skills development and management support services for the sewerage sector etc were scheduled to be completed by April 2019. However, the contract for respective consultancy services were not awarded even as at 31 December 2017. According to the progress Report furnished by the Project, the overall physical progress of the activities of the Project was remained at 2.5 per cent at the end of the year under review.