

## **Sanitation and Hygiene Initiative for Towns Project (Phase-01) - 2021**

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The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project for the year ended 31 December 2021 was carried out under my direction in the 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 Credit Facility Agreement No. CLK 1013 – 01 K of 01 June 2016 and Financing 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 comments and observation which I consider should be reported to parliament appear in this report.

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

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According to the Credit Facility Agreement and Financing Agreement of the Project, then Ministry of Water Supply and Drainage, presently Ministry of 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 (a) extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people in Negambo municipal council area, (b) Clarify and enhance the water and sanitation sector frame work (c) facilitate access to the service for disadvantaged households through the development of pro-poor policies designed to fight poverty (d) strategies and preserve the coastal and marine ecosystems and maintain bio-diversity. The estimated total cost of the Project amounted to Euro 107.70 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 Agence Francaise de Development as a Loan and Euro 5.70 million equivalent to Rs. 991.81 million as a Grant. The balance of Euro 26 million equivalent to Rs. 4,524 million required to be contributed 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 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditors 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**

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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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## 1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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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. Physical Performance**

**2.1 Physical Progress of the activities of the Project**

<b>Activities</b>	<b>Physical Progress as at 31 December 2021</b>		<b>Responses of the Management</b>	<b>Auditor' Recommendations</b>
	<b>Expected</b>	<b>Actual</b>		
(a) Supply and laying of sewerage network, for main pumping house and construction of pumping station for Negombo Municipal Council priority area.	Contract was Scheduled to be completed in December 2022.	Waiting for SCAP approval for bidding document	it is expected to award this contract in December 2022 as per the revised procurement schedule. However, AFD suspended loan disbursement due to prevailing economic instability in country. Hence, decided not to float the tender document for bidding.	Actions should be taken to expedite the Project activities since loan closed on 30 June 2022.
(b) Design and construction of wastewater treatment plant and outfall for Negombo waste water management system and household connections serving the sewerage system.	Contracts was Scheduled to be awarded in June 2018	waiting for AFD approval for calling bidding document	Initial delay due to delay in procurement of Design and Supervision Consultancy contract. However, Preliminary design and bidding document preparation could not be completed due to April 21 incident and the prevailing covid-19 pandemic. It is expected to award this contract in February 2023 as per the revised procurement schedule.	Actions should be taken to expedite the Project activities since loan closed on 30 June 2022.

(c) Improvement of sanitation facilities in low income communities in the Project area.	Contracts was Scheduled to be awarded in June 2018.	Contract was not awarded even up to 25 May 2022.	The initial work plan was prepared by PMU and household survey was completed. However, AFD insisted to award the contract to a NGO as per the loan agreement. Discussions are in progress. Delay will not affect the overall project target.	Action should be taken to expedite the procurement process
(d) Sewerage Management skills development consultancy	Procurement process was scheduled to be commenced in November 2018.	Waiting for AFD approval for calling bidding document	Delay in awarding the PIEC contract due to initial procurement delay contributed to delay in commencing works as PIEC consultant is responsible for the preparation of bidding documents for this contract. SMSDCP1 EOI evaluation is in progress Draft RFP was sent to document approval on 18.02.2022 and also sent to AFD comments on 21.02.2022. SMSDC P2- Tender board approval received and tender calling was published on 06.04.2022. SMSDC P3- Preparation of bidding document for NWSDB Training Center Development Facility is completed and document approval obtained from DPC but AFD consent not received.	Action should be taken to expedite the procurement process.
(e) Land Acquisition	13 no of land in Negombo, 17 no of land in Galle and 7 no of land in Unawatuna	Lands acquisition process are on-going	Availability of access to the lands will be ensured before the commencement of construction.	The NWSDB should be taken immediate action to get transferred the ownership of the land.

## 2.2 Contract Administration

### Audit Issues

The Lending Agency had recovered a sum Rs.405.43 million as commitment charges on undisbursed loan balance up to 31 December 2021 as a result of the loan disbursements had been commenced in 2018 after two years from the date of the Agreements sign in 2016.

- (a) Policy and institutional enhancement consultancy contract had submitted reports namely Deliverable 3, Deliverable 4 and Deliverable 5 for develop the Accounting system of the NWSDB and Deliverable 7 and Deliverable 8 for develop the sewerage management skills of the NWSDB in 2020. However, recommendation include in those reports had not implemented by the NWSDB even as at 25 May 2022.
- (b) The Project had approved variation order No. 03 for recruit human resource consultant for NWSDB by using saving from reducing project scope of Policy and institutional enhancement consultancy contract.

### Responses of the Management

According to the Loan agreement CLK 1013 01K clause 6.1 a committee charge of 0.5% of the aggregate of available credit and the amount of any drawdowns to be made available by the lender in accordance with any pending drawdown requests.

Deliverable 3,4,5 PMU coordinated with relevant section of NWSDB and directed for implementation. Deliverable 7 & 8 outcomes of the deliverables were used & incorporated and implemented SMSDC packages. Accordingly, outputs of deliverable 7,8 are used for capacity development of Water Reclamation Division.

A request was received from Addl.GM (P&P) and VO was paid only one month (LKR 400,000) with VO committee approval.

### Auditor's Recommendations

Action should be taken to expedite the Project's activities.

NWSD should prepared Project scope in an effective, economical and efficient manner.

The Project should manage the expenditure within the Project scope.

### 2.3 Matters in Contentious Nature

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#### Audit Issue

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As per the vote ledger estimate of the National Water Supply and Drainage Board, the GOSL expenditure for the year under review was Rs.26.91 million. However, as per the Financial Statements of the Project, it was Rs.29.28 million.

#### Response of the Management

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There were some adjustments for the difference.

#### Auditor's Recommendation

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The project should manage expenditure with the vote ledger estimate.

### 2.4 Matters pointed out in previous Audit Reports which remained unresolved

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#### Audit Issue

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The National Water Supply and Drainage Board had scheduled to construct a waste water treatment plant in Galle district and designing part of the treatment plant had been completed by the Project. Further, the National Water Supply and Drainage Board had selected a land for that purpose and commenced the acquisition process at the end of year 2014 and it had completed on 17 June 2019. However, the National Water Supply and Drainage Board had not been transferred legal ownership of the land even up to 25 May 2022, due to delay in judgment on case filed by the National Water Supply and Drainage Board to recover the advance already paid for the purchase of the land.

#### Response of the Management

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Due to the ongoing court case of the advance payment for the land, it was decided to switch to the land acquisition process.

#### Auditor's Recommendation

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Land acquisitions should be carried out in an effective, economical and efficient manner.