

Sanitation and Hygiene Initiative for Towns Project (Phase – 01) in South West Sri Lanka - 2022

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project (Phase – 01) in South West Sri Lanka Project for the year ended 31 December 2022 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 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 observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to Credit Facility Agreement and Financing Agreement of the Project, then Ministry of Water Supply, presently the Ministry of Water Supply and Estate Infrastructure Development 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 extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people in Negombo municipal council area, Clarify and enhance the water and sanitation sector frame work ,facilitate access to the service for disadvantaged households through the development of pro-poor policies designed to fight poverty ,strategies and preserve the coastal and marine ecosystems and maintain bio-diversity. The activities of the Project are implemented under 03 components namely Design and Supervision Consultancy, Sanitation in Negombo, Management Support Consultancy. As per the Credit Facility Agreement and Financing Agreement, the estimated total cost of the Project was 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 Agence Francaise de Development. The balance amount of Euro 26 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 01 June 2016 and scheduled to be completed by 30 June 2022.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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

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 scepticism 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 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Section 9.3 of the Management Circular No.01/2019.	As per the Circular, steering committee should be met at least once in two months, only five committee meetings had been held from 2017 to 2022.	Due to Easter Sunday attack and Covid-19 pandemic the regular steering committee meeting were not held and postponed.	Action should be taken to held steering committee meetings and take policy decisions to complete the projects as planned

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Project component	Audit issue	Management Response	Auditor's Recommendations
(a)	Sanitation in Negombo			
i)	Construction of Collection System with Pump House for Negombo Wastewater disposal system.	Although bidding document for this construction had approved by procurement committee on 25 January 2022, bid calling was suspended due to AFD fund restriction.	The bid calling activities suspended due to unavailability of funds as per the procurement committee decision.	Action should be taken to continue the project activities without further delays.
ii)	Design Built Construction of wastewater treatment Plant and Disposal system for Negombo Sewerage system.	Although the bidding documents were issued to the bidders on 2 March 2022, bidding process was suspended due to unavailability of funds	The procurement activities suspended due to unavailability of funds as per the procurement committee decision	Action should be taken to continue the project activities without further delays.
iii)	Construction of collection network in narrow roads and property connection for Negombo sewerage system.	Although Property connection survey has completed, procurement activities were suspended due to unavailability of funds.	AFD suspended further loan disbursement due to economic instability in Sri Lanka	Action should be taken to continue the project activities without further delays.

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| (b) | Sewerage Management development consultancy skills | Although the procurement process was scheduled to be commenced in November 2018, only equipment contract (package 2) was awarded on November 2022 and other contracts was not awarded even up to 31 December 2022. | Initial procurement delay contributed to delay in commencing SMSDC works as PIEC consultant is responsible for the preparation of bidding documents for this contract. Already signed contracts under grant are scheduled to be completed before the technical completion date of 21.12.2023. | Action should be taken to expedite the procurement process. |
| (c) | Land acquisitions | Although the land acquisition activities should be completed at the initial stage of the project, 12 plots of land which required for the construction of waste water pumping stations and wastewater treatment plant, had not been acquired even at the end of the year under review. | Those lands owned to privet owners. Due to owner objection and public protest some delay occurred. | Action should be taken to expedite the land acquisition process. |

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Although the project office had been established in the year 2016 and about 20 officers were being worked as project staff, 03 major an initial works contracts had not yet been awarded and it could not have completed any part of the project even by the end of the year under review. Accordingly it was observed that the money which have spent to maintain such a big staff and a project office may be uneconomic.	Although the loan agreement was signed on 01.06.2016, Project Management Unit (PMU) was established in January 2017 (delay 7 months), initially with 10 number of officers. The number of officers were increased gradually according to the requirement of technical assistance to the submittals of the consultancy. it was increased up to 15 and 17 at the end of 2018 and 2021 respectively for preliminary and detail design stages.	Action should be taken to reduce uneconomical expenses.

3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
Even though the Commitment Charges are unavoidable with this economic crisis of the country it can be minimized by achieving disbursement targets. However, the general treasury had paid Rs. 190 million as commitment charges on undisbursed loan balance from 2011 to 2022 regarding this project and this kind of transactions may be a big financial burden to the country.	Disbursements were delayed due to delay in project.	Action should be taken to reduce uneconomical expenses.

3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Undisbursed amount of Loan and Grant were 94 and 72 percent respectively at the end of the year under review even the project should be completed by this year according to the loan agreement. It was observed that Poor performance had been shown even in the year under review and no action had been taken by the management to expedite the project activities.	The government declared its debt default in April 2022. Accordingly, signed an MOU between DSC consultant and NWSDB to complete Negombo designs by 20th December 2022 and suspend the detailed design and preparation of bidding document for Galle/Unawatuna	Action should be taken to expedite future disbursements