

## **Global Partnership on Output-Based Aid (GPOBA) Project - 2014**

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The audit of financial statements of the Global Partnership on Output-Based Aid (GPOBA) Project for the year ended 31 December 2014 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 II (B) of Grant Agreement No. TF099870 dated 27 December 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development and International Development Association.

### **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 the Ministry of Water Supply and Drainage, presently the Ministry of Urban Development Water Supply and Drainage is the Executing Agency and 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 Greater Colombo by increasing the number of sewerage house connections to existing and new sewerage networks and improving on site sanitation services at household level. As per the Grant Agreement, the estimated total cost of the Project was US \$ 9.85 million equivalent to Rs. 1,132.17 million and out of that US \$ 5.08 million equivalent to Rs. 583.66 million or 52 per cent was agreed to be financed by the International Bank for Reconstruction and Development Bank and International Development Association. Further, US \$ 3.24 million equivalent to Rs.372.4 or 33 per cent was expected to be contributed by the Government of Sri Lanka and US \$ 1.10 million equivalent to Rs. 126.97 or 11 per cent was expected to be contributed by the National Water Supply and Drainage Board. The balance of US \$ 0.43 million equivalent to Rs. 49.13 million or 4 per cent was contributed by the beneficiaries. The Project commenced its activities on December 2011 and scheduled to be completed by 31 December 2015.

### **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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 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 (SOEs) 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 Non – Compliance with Laws, Rules and Regulations**

The following observations are made.

- (a) Approval of the Department of Management Service for the entire cadre positions of the Project had not been obtained.
- (b) According to Section 08 of the Public Contract Act, No.03 of 1987, the contractors who accepted contracts for Rs.5 million or more should be

registered under the Registrar of Public Contract. Further, the agreements should be registered with the Registrar of Public Contract within 60 days after the awarding of the tender. This requirement had not been accomplished by the contractors who engaged with activities of the Project.

### 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 2014 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year under review	Fund utilization			
	US\$ Million	Rs. million	Rs. million	During the year 2014		As at 31 December 2014	
	US\$ Million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Grant	5.081	583.662	200.000	0.024	3.119	0.024	3.119
GOSL	3.242	372.402	165.000	1.240	161.881	1.608	209.941
NWS&DB	1.105	126.977	50.000	0.383	50.000	0.498	65.000
Beneficiaries	0.428	49.135	-	0.014	1.875	0.054	7.025
<b>Total</b>	<b><u>9.856</u></b>	<b><u>1,132.176</u></b>	<b><u>415.000</u></b>	<b><u>1.661</u></b>	<b><u>216.875</u></b>	<b><u>2.184</u></b>	<b><u>285.132</u></b>

Out of the total allocation amounting to Rs. 200 million made in the Budget Estimate for the year 2014 under the Foreign Grants, a sum of Rs 35 million had been transferred to other projects implemented by the Ministry of Water Supply and Drainage.

#### 3.2 **Physical Progress**

The following observations are made.

- Five components, out of 11 components included in the Master Procurement Plan of the Project had not been implemented due to financial constraints.
- Targeted water supply connections for 15,407 beneficiary households made in the Master Plan of the Project had been reduced up to 8,800 beneficiary households subsequently, due to erroneous estimations made at the initial stage.

- (c) Although the contracts on direct sewerage connections in Dehiwala, Mt.Lavaina, Kolonnawa and Ja-ela / Ekala and Moratuwa/ Ratmalana areas were required to be completed by 17 January 2015, the physical progress of the works carried out thereon was remained at 71 per cent as at 31 December 2014 due to delays in works carried out under the Ratmalana and Moratuwa Waste Water Disposal Project.
- (d) According to the provisions in the Grant Agreement and Project Implementation Manual, the Project Director was required to be appointed for the Project on full time basis. However, a Project Manager had been appointed on acting basis since November 2011.

### **3.3 Issues on financial Controls**

The following observations are made.

- (a) Transactions of the Project had not been subjected to the internal audit as per the Management Audit Circular No. 05 of 26 July 2010.
- (b) The physical verification of property, plant and equipment of the Project had not been carried out during the year under review to verify the physical existence of such assets.

### **3.4 Matters in Contentious Nature**

As a practice, the computation of the remuneration for the staff of the Project is being done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged from the Project even though the Project had recruited adequate staff for the administration purposes. The overhead expenditure paid by the Project to the National Water Supply and Drainage Board for the year under review amounted to Rs. 28 million.