

Sanitation and Hygiene Initiative for Towns Project (Phase -01) in South West Sri Lanka - 2016

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project (Phase - 01) in South West Sri Lanka for the first accounting period ended 31 December 2016 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 dated 01 June 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Facility Agreement of the Project, the 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 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 107.70 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 Franciase De Development Bank 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 is scheduled to 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 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 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 and Grant had been made in accordance with the specifications laid down in the Credit Facility Agreement.
- (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 Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Credit Facility 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the financial covenants laid down in the Credit Facility Agreement had been complied with.

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 2016 are shown below.

Source	Amount agreed for financing according to the Credit Facility Agreement		Allocation made in the Budget Estimate for the period under review	Funds utilized up to 31 December 2016	
	Euro million	Rs. million	Rs. million	Euro million	Rs. million
AFD - Loan	76.00	13,224.00	-	-	-
- Grant	5.70	991.81	-	-	-
GOSL	26.00	4,524.00	10	0.02	3.4
Total	<u>107.70</u>	<u>18,739.81</u>	<u>10</u>	<u>0.02</u>	<u>3.4</u>

3.2 Physical Progress

According to the Project documents, the activities of the Project are scheduled to be implemented under 03 components namely, sanitation infrastructure in Negombo area including construction of a wastewater treatment plant, provide technical assistance for capacity building programmes and consultancy services for design and engineering works etc.,. The Implementing Agency of the Project had taken initial steps to establish the Project Monitoring Unit and procure Consultants etc, during the period under review.

3.3 Contract Administration

According to the Cabinet Memorandum No. MFS/PA/CP/15/148 of 28 July 2015 Ministry of Finance had agreed to implement the Project proposal, subject to the concurrence to be obtained from then Ministry of Urban Development, Water Supply and Drainage, presently Ministry of City Planning and Water Supply to ensure all preparatory requirements pertaining to the Project such as land acquisition, environmental and social clearance etc. prior to signing of the Loan Agreement. However, Project had not obtained clearance relating to the environment and the social issues from the respective parties even up to 31 December 2016.

3.4 Matters in contentious nature

Eventhough the Project had recruited 02 Civil Engineers in December 2016, such officers had been released since January 2017 to other Project called “ Expansion of Pipe Borne Sewer Coverage Project for Moratuwa and Ekala Areas”.