

Global Partnership on Output-Based Aid Project - 2018

The audit of financial statements of the Global Partnership on Output-based Aid Project for the year ended 31 December 2018 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 11 (B) of the Grant Agreement No. TF099870 dated 27 December 2011 entered in to between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development and International Development Association. 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 the Grant Agreement of the Global Partnership on Output-based Aid Project, then Ministry of Water Supply and Drainage, presently the Ministry of Urban Development, Water Supply and Housing Facilities 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 \$ 13.10 million equivalent to Rs.1,559 million and out of that US \$ 5.08 million equivalent to Rs.583.66 million was agreed to be provided by the International Bank for Reconstruction and Development and International Development Association. The Project commenced its activities in December 2011 and scheduled to be completed by 31 December 2015, subsequently the period of the Project had been extended 03 times up to 31 March 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

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 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

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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 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 identified during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendation
(a)	Value Added Tax amounting to Rs. 172.74 million paid up to 31 December 2018 had been set off against the proceeds of contribution of the Government of Sri Lanka.	Understatement of the contribution of the Government	According to the policy accepted by the National Water Supply and Drainage Board, Value Added Tax had been set off against the proceeds of the contribution of the Government.	The respective cost should be brought to account as enable to reflect the total contribution of the Government to implement the activities of the Project.
(b)	Remuneration of the staff of the Project Monitoring Unit amounting to Rs.6.48 million paid during the year under review by the National Water Supply and Drainage Board had not been brought to the accounts.	Understatement of the value of work- in -progress	Action will be taken to rectify.	Reconciliation should be made periodically with the records maintained by the National Water Supply and Drainage Board.
(c)	value of the work done amounting to Rs.7.11 million under the component of the simplified and conventional extension works implemented during the year under review and Value Added Tax thereon amounting to Rs.1.06 million had also not been brought to account.	-Do -	Not properly commented.	Value of works certified at the end of the year under review need to be brought to account.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Impact	Response of the Management	Auditor's Recommendation
As per the Management Circular No.05 of 26 July 2010, the activities of the Project had not been subjected to audit of Internal Audit Section of the National Water Supply and Drainage Board.	Not complied with the major requirement	Not properly commented.	Need to adopt with the requirement

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project under the components of direct sewerage connections, conventional sewer extensions and providing of simplified sewer connections and new decentralized networks had been substantially completed as at 31 December 2018. However, activities under the component of On-site Sanitation Improvements had shown a slow progress as at 31 December 2018, due to delays in awarding of contract and poor performance of the contractor. The following observations are made.

Component	Activity	Performance as at 31 December 2018		Impact	Response of the Management	Auditor's Recommendation
		Target	Achieved			
On-site sanitation improvements	Installation of Water Treatment Units at Dehiwala, Moratuwa, Kolonnawa and Ja- Ela	3,785 units	3,400 units	Delays in timely completion of the activities of the Project	The delays were happened due to poor performance of the main contractor and several project specific reasons such as scattered nature of the Project, difficulties face to deployed adequate work force and problems facing while implementing a new concept as a pilot project. Therefore, actions were taken to award new contracts to complete the activities of the Project.	Need to monitor the activities of the contractor closely to complete the activities within extended period of the Project .