

Sanitation and Hygiene Initiative for Towns Project (Phase – 01) - 2023

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project (Phase 01) for the year ended 31 December 2023 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 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 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. The Project had been temporarily halted as at 30 April 2023 due to lending institution had stopped money disbursing.

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 2023, 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. Physical Performance

2.1 Physical progress of the activities of the Project

No	Project component	Activity	As at 31 December 2023		Audit issue	Management Response	Auditor's Recommendations
			Expected physical performance Percentage	Performance achieved Percentage			
(a)	Technical assistance and capacity building of the sewerage sector.	Management Support Consultancy	100	61	The MSC was "as needed" due to the limited availability of funds.	Due to suspend of the project, this contract inputs will no more required.	Actions should be taken to restart the project.
(b)	Studies and tender documents for sewerage infrastructure for Galle/Unawatuna and Kelaniya/Peliyagoda	Design and Supervision Consultancy	100	52	The bid calling process and preparation of bidding documents for wastewater treatment plant (package 2) in Negombo, Galle/Unawatuna and Kelaniya/Peliyagoda were delayed due to the unavailability of funds.	Signed an MOU between DSC and consultant to complete Negombo designs by 20th December 2022 and DSC completed as per agreed.	Actions should be taken to restart the project activities.
(c)	Technical assistance and capacity building of the sewerage sector	Sewerage Management skills development consultancy(package 1 ,2,3)	100	60	(i) Although the procurement process was scheduled to start in November 2018, only the equipment contract (Package 2) was awarded in November	Procurement contract activities were temporarily suspended.	Should take necessary action to start the project again.

2022, while the other contracts remained unawarded as of December 31, 2023.

(d)	Studies and construction of sewerage infrastructure for Negombo city .	Construction of Collection System with Pump House for Negombo Wastewater disposal system.	100	0	Even though the bidding document was submitted to SCAPC and received approval on 25 January 2022, bid calling was suspended due to AFD fund restrictions.	The bid calling activities suspended due to unavailability of funds.	Action should be taken to complete the project activities and fulfill the objectives for the beneficiaries.
(e)	Studies and construction of sewerage infrastructure for Negombo city .	Design Built Construction of wastewater treatment Plant and Disposal system for Negombo Sewerage system.	100	0	Procurement activities had been suspended due to unavailability of funds.	Suspended due to unavailability of funds.	-do-
(f)	Studies and construction of sewerage infrastructure for Negombo city .	Construction of collection network in narrow roads and property connection for Negombo sewerage system.	100	0	Procurement activities had been suspended due to unavailability of funds.	Suspended due to unavailability of funds.	-do-
(g)	Land Acquisition and Land Clearance		100	6	Out of the 33 plots of land only 2 plots of land had been acquired by 31 December 2023.	To reduce the government expenses the acquisition process continued under normal process.	Action should be taken to expedite the land acquisition process.

2.2 Payment made out of the project objectives.

Project component	Audit issue	Management Response	Auditor's Recommendations
Sewerage Management skills development consultancy(package 1 ,2,3)	An amount of Rs. 4.3 million was spent on activities that fall outside the project's objectives. This expenditure included costs for hotel accommodation, bus rental, flower decorations, exhibition stalls, LED screens, and fairy lights.	This expenditures are relevant to the international Water Conference 2022, which was taken no objection from AFD to claim via grant fund under package 03.	Expenditure for water conference should be bared by the Line Ministry under the allocation taken by the Treasury in order to use project funds out of the project objectives.

3. Matters in Contentious Nature

No.	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	<p>The project, originally scheduled to commence in June 2016 and be completed by June 2022, and extended for another two years up to end of the 2024.</p> <p>The scope of the project includes a 16,000 m³/day capacity wastewater treatment plant (WWTP), an effluent disposal system, a 79 km length of wastewater collection network, and 6000 connections. However, procurement activities for constructions had not been completed by 31 December 2023, due to the suspension of disbursements under the credit facility agreement. The disbursement amounts for the loan and grant were 3 percent and 1 percent respectively, with an undisbursed amount of Rs. 16,898 million as of 31 December 2023. Furthermore, as of 31 December 2023, an amount of Rs. 1,841 million had been spent on the Design and Planning phase of the project.</p>	The project was delayed due to various reasons.	Action should be taken to implement the planned activities to reach desired objectives of the project.
(b)	Due to significant delays in project activities, the expected outcomes of the project were not achieved. However, over the past 12 years, the government was required to pay a total of Rs. 464.8 million as commitment charges on the undisbursed loan amount, without contributing any economic value to the country.	Disbursements were delayed due to delay in project.	The project should be restarted to achieve the expected objective.