

Water Sanitation and Hygiene (WASH) Project - 2015

The audit of financial statements of the Strengthening of Water Sanitation and Hygiene (WASH) Project for the first accounting year ended 31 December 2015 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 Article 3.3 of the Grant Agreement on 17 December 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the SAARC Development Fund.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Project, the Ministry of Agriculture is the Executing Agency and Department of Agrarian Development is the Implementing Agency of the Project. The objectives of the Project are sustainable improvement of the quality of life of rural communities who depend on the village irrigation systems for their water and ecological needs and improve water use efficiency in watershed management of the irrigation schemes and watersheds in 09 villages benefiting 2800 families in Batticaloa and Monaragala districts. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 0.94 million equivalent to Rs. 119 million and total amount was agreed to be provided by the SAARC Development Fund. The Project commenced its activities on 17 December 2014 and scheduled to be completed by 16 December 2017.

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, and
- (h) 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 Grant Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Mobilization advances amounting to Rs.400,000 made on restoration works of 02 village tanks in Monaragala district had been treated as expenses incurred.

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 first accounting year are shown below.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
SAARC Development Fund	0.94	119	40.4	0.034	4.9

3.2 Physical Progress

The Project had not taken action to initiate the activities such as development of reliable data bank for water based decision making, feasibility studies on eco- system management, water related infrastructure development, preparation of land productivity maps and land usage plans, identifying micro-watershed areas for conservation and training of public sector officers etc, which were expected to be carried out during the year under review, as per Project Implementation Plan. Further, 02 training programmes for farmers living in Kataragama area had only been conducted during the year under review under the Farmers' Leadership Skills Development Programme of the Project.

3.3 Contract Administration

It was observed that same members of the Procurement Committee appointed for the procurement of materials for water infrastructure and other office equipment had represented the Technical Evaluation Committee appointed thereon, contrary to the paragraph 2.8.1(a) of the Government Procurement Guideline. Further, the reports of Technical Evaluation Committee on bids evaluated for the procurement of 223 items valued at Rs. 1.56 million had not been submitted for audit. In addition, the details of respective equipments had not been recorded in the inventory register even as at 31 December 2015.