

Global Partnership on Output-Based Aid Project - 2016

The audit of financial statements of the Global Partnership on Output-Based Aid Project for the year 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 11 (B) of the 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 (IBRD) and International Development Association (IDA).

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 City Planning and Water Supply 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 of the 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 amounted to 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 Bank 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 up to 31 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 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 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 the 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, 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,
- (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 Presentation of Financial Statements

According to the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements for the year ended 31 December 2016 are required to be submitted to the Auditor General on or before 31 March 2017. However, the financial statements of the Project had been submitted only on 26 April 2017.

2.2.2 Accounting Deficiency

Value Added Tax aggregating Rs. 99.67 million paid as at 31 December 2016 had been charged against the contribution received from the Government of Sri Lanka instead of being shown under the work-in-progress.

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 Grant Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Grant	5.08	583.66	400.00	1.24	182.18	1.47	212.66
GOSL	6.80	835.20	219.35	0.68	102.73	2.59	352.16
NWS&DB	1.04	119.46		1.28	190.07	3.01	416.01
Beneficiaries	0.18	20.68		-	0.12	18.39	0.20
Total	<u>13.10</u>	<u>1,559.00</u>	<u>619.35</u>	<u>3.32</u>	<u>493.37</u>	<u>7.27</u>	<u>1,010.53</u>

According to the above information, US\$ 1.47 million equivalent to Rs. 212.66 million representing 29 per cent of the total allocation of the Grant of US\$ 5.08 million equivalent to Rs. 583.66 million had only been utilized even after lapse of 05 years of operations as at 31 December 2016.

3.2 Physical Progress

The following observations are made.

- (a) According to the Progress reports furnished by the Project, the overall physical and financial progress of the Project as at end of the year under review was remained at 38.17 per cent and 53.30 per cent respectively. Eventhough the period of the Project had been extended up to 31 December 2017, the sewerage connections had been provided to 3,268 beneficiaries only as at 31 December 2016. Therefore, the possibility to achieve the target of sewerage connections to 8,561 beneficiaries during the remaining period of 12 months is very remote, due to lack of comprehensive plan thereon to implement the activities of the Project. The details on physical progress of sewerage connections provided as at 31 December 2016 is given below.

Nature of the Sewerage Connections	Number of Sewerage Connections provided		Progress
	as at	at	
	31 December 2016		
	Target	Actual	%
Direct Sewerage Connections	1,236	1,234	99.83
Connections to Conventional Sewer Extensions	392	13	3.32
Connections to Simplified Sewer Connections	2,583	1,620	62.72
Connections to New Decentralized Networks	565	392	69.38
On-Site Sanitation Improvements	3,785	9	0.23
Total	<u>8,561</u>	<u>3,268</u>	38.17

3.3 Contract Administration

The following observations are made.

- (a) The contract for on-site sanitation improvements was awarded on 16 May 2016 and scheduled to be provided such sanitation facilities to 3,785 beneficiaries living in the areas of Dehiwala, Moratuwa, Kolonnawa and Ja Ela as at 30 June 2017. However, the activities under the contract had shown slow physical progress, due to several reasons such as shortage of skilled workforce of the contractors and lower production capacities of the treatment units etc in addition, 526 treatments units to provide on-site sanitation facilities had been installed up to 31 May 2017, out of 3,785 treatments units agreed to be produced and installed by the contractor. Further, it was revealed that the targets of 95 sewerage connections expected to be provided in the Kolonnawa Divisional Secretariat area could not be achieved due to low demand of the beneficiaries living in the area and only 116 sewerage connections had been provided even as at 31 May 2017.

- (b) It was planned to provide 1,475 sewerage extensions under the contract awarded on 30 June 2015 to provide simplified and conventional sewerage extensions before 31 May 2017. However, only 220 extensions had been provided as at 31 March 2017, due to failures of the contractor.

- (c) It was observed that 72 per cent of civil works related to pipe laying and constructions filters, sea out fall and pumping station under the contract for providing connections to new decentralized networks at Lunawa had shown slow progress, due to subsequent changes made on pumping location, pumping main and gravity sewer line.

3.4 Issues on Financial Controls

According to the Financial Regulation 134 (3) and Management Audit Circular No. 05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board for the year 2016.