

Strengthening of Water Sanitation and Hygiene (WASH) Project - 2016

The audit of financial statements of the Strengthening of Water Sanitation and Hygiene (WASH) 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 Article 3.3 of the Grant Agreement Dated 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 to ensure the sustainable improvement of the quality of life of rural communities who depend on 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 was 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.
- (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, and
- (c) 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/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project 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 for the year under review had been presented for audit only on 01 August 2017.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review, utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for financing as per the Grant Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
SAARC Development Fund	0.94	119	74	0.29	36.99	0.33	41.91
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	<u>0.94</u>	<u>119</u>	<u>74</u>	<u>0.29</u>	<u>36.99</u>	<u>0.33</u>	<u>41.91</u>

Eventhough the Grant Agreement of the Project was signed on 17 December 2014 and the activities of the Project scheduled to be completed on 16 December 2017, a sum of Rs. 41.91 million had only been utilized, out of the allocation amounting to Rs. 119 million made even after elapse of 24 months as at 31 December 2016.

3.2 Physical Progress

According to the works plans, the improvement works such as strengthening of watershed management, planning of usage of lands, reduction of water borne diseases, adoption of improved technologies to ensure the quality of sanitation and health facilities and conducting of awareness programmes to ensure the hygiene condition of 09 villages of Batticloa and Monaragala districts were expected to be carried out by the Project. However, 07 villages of Vaharai, Thoppigala and Kalavanchikudy in Batticloa district and Sellakatharagama, Kahakurullan Pellessa, Kimbulkema and Kanda Surindugama in Monaragala district had been selected for that purpose. The Project had not taken actions to initiate the activities such as training on appropriate groups, construction and modification of sanitation facilities, carrying out of studies on socio cultural practices and developing of information education communication materials for behavioral changes etc, which were expected to be carried out during the year under review.

3.3 Contract Administration

The following observations are made.

- (a) The contract on renovation works of Andankulam Tank in Batticaloa district had been awarded on 28 October 2016 at an estimated cost of Rs. 18.17 million. The physical inspections made by the auditors on 23 August 2017 had revealed that there was no proper linkage of drainage system for smooth water flowing connected to the paddy fields, eventhough a sluice gate of the Tank and a concrete canal of 75 metres had been constructed by the Project. As a result, the canal had remained unused as at that date. Further, it was observed that the quality of the sluice gates constructed and the hume pipes used had not been certified by an Engineer.

- (b) The renovation works of Idipalasse and Kimbulkema Tanks commenced on 01 December 2015 and 08 June 2016 respectively without carrying out proper feasibility studies and temporally suspended in January 2017, due to objections of the Department of Forest Conservation. However, rehabilitation works valued at Rs. 1.22 million had been completed, out of the works estimated at Rs. 14.21 million were expected to be carried out.