

Strengthening of Water Sanitation and Hygiene Project - 2017

The audit of financial statements of the Strengthening of Water Sanitation and Hygiene Project for the year ended 31 December 2017 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 Project Financing 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 Financing Agreement of the Project, the Ministry of Agriculture is the Executing Agency and the 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 watershed in 09 villages benefiting 2800 families in Batticaloa and Monaragala districts. As per the Financing Agreement, the estimated total cost of the Project was US\$ 0.94 million equivalent to Rs. 119 million and the 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. Subsequently, the period of the Project had been extended up to 16 December 2018.

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 Financing 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 Financing 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 Financing 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 dated on 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project is required to be submitted to the Auditor General within 03 months after end of each financial year. However, the financial statements of the Project for the year under review had been submitted for audit only on 16 November 2018.

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 2017 are shown below.

Source	Amount agreed for financing as per the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year under review		as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
SAARC Development Fund	0.94	141	86	0.40	59.90	0.67	101.61
	<u>0.94</u>	<u>141</u>	<u>86</u>	<u>0.40</u>	<u>59.90</u>	<u>0.67</u>	<u>101.61</u>

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. Therefore, 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 and out of that the rehabilitation works of the tanks at Mavattuvan, Adankulam and construction of dam at Thathativ in Batticloa district had been completed even at the end of the previous year. Further, the rehabilitation works of Girikatuwa Tank and Kukulkatuwa Tank in Monaragala district scheduled to be completed on 17 November 2017 and 08 September 2016 respectively had not been completed even up 31 December 2018. However, 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 for the rehabilitation works of Indipallssa Tank in Monaragala District had been awarded to 02 Farmers' Organizations on 19 January 2017 at an estimated cost of Rs. 11.51 million, without considering the technical and financial capabilities of the respective Organizations to carry out such rehabilitation works and the part of rehabilitation works of the Tank had been abandoned in July 2017, due to financial incapacities of a contractor. Further, the reconstruction works of 450 metres of the bund of the Tank had been suspended, due to objections made by the Department of Forest Conservation. As a result, the objective of the rehabilitation works of the Tank to provide continuous watering facilities to the paddy fields of 200 acres had not been achieved, as expected.

- (b) The soil testing laboratory constructed at a cost of Rs. 1.91 million in Monaragala and handed over to the Department of Agrarian Development on 07 November 2017 with necessary equipments valued at Rs.1.06 million had remained idle even as at 31 October 2018, due to delays in deploying of officers with the knowledge of soil testings.