

Sanitation and Hygiene Initiative for Towns Project (Phase-01) - 2018

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project (Phase –01) for the year ended 31 December 2018 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 Loan Agreement No. CLK 1013 – 01 K of 01 June 2016 and Grant Agreement No. CLK 1013 – 02 L of 16 March 2016 entered between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise de Development. My comment and observation which consider should be reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and Grant Agreements of the Project, then Ministry of Water Supply and Drainage, presently Ministry of City Planning, Water Supply and Higher Education 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 to extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people, facilitate access to the service for disadvantaged households through the development of pro-poor policies and strategies and preserve the coastal and marine ecosystems and maintain bio-diversity. The estimated total cost of the Project amounted to 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 the Agency 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 is scheduled be provided by the Government of Sri Lanka. The Project commenced its activities on 01 June 2016 and scheduled to be completed by 30 June 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 of my report, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 skepticism 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. Comments on Financial Statements

2.1 Accounting Deficiencies

The following observations are made.

	Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
(a)	According to the financial statements of the Project, a sum of Rs. 159.21 million claimed had been withdrawn as at 31 December 2018. However, according to the records of the Department of External Resources, the corresponding value of withdrawals amounted to Rs. 95.11 million.	Weaken Internal control system.	The withdrawals from both loan and the grants amounting to Rs. 159.21 million included in the financial statements and the withdrawals of Rs. 95.18 million only included in the record of the Department of External Resources.	Need to reconcile the figures and disclose it in the financial statements appropriately.
(b)	As per the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2018 amounted Rs. 57.45 million. However, according to the financial statements of the Project, the corresponding value of work-in-progress amounted to Rs.110.53 million.	Weaken Internal control system.	Action will be taken to rectify the financial statements of the Project.	Need to reconcile the figures in timely manner.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project consisted with 03 main components of the improvement of sanitation infrastructures in Negombo area, providing consultancy services for the formulation of sewerage policy and designing of sanitation infrastructures in Negombo, Galle and Kelaniya areas etc, However, the contracts on providing of consultancy services thereon had not been awarded even as at 31 December 2018, except the contract for consultancy services for management support for the Project Monitoring Unit and contract design and supervision consultancy services construction works. Further, the acquisition of

10 plots of land in Negombo area for the construction works implemented by the Project was remained in progress as at 31 December 2018.

3.2 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The transactions of the Project during the year under review was not subjected to Internal Audit as required by the Financial Regulation 133 and the Management Audit Circular No. 02/2016 of 10 June 2016 of the Department of Management Audit.	Weaken financial controls.	Not commented.	The service of an Internal Auditor need to be obtained to ensure the use of the funds allocated by the Project effectively.