

## **Global Partnership on Output-Based Aid Project - 2019**

---

The audit of financial statements of the Global Partnership on Output-based Aid Project for the year ended 31 December 2019 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 in to between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development and International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

### **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 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 to 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 was US \$ 12.93 million equivalent to Rs.1,537.15 million and out of that US \$ 4.89 million equivalent to Rs.561.81 million was agreed to be provided by the International Bank for Reconstruction and Development 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 03 times up to 31 March 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **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 Auditors Responsibilities for the Audit of the Financial Statements section of this 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 of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 identified during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiencies

Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a) Value Added Tax aggregating Rs.187.06 million paid up to 31 December 2019 had been set off against the contribution received from the Government of Sri Lanka instead of being shown separately in the financial statements.	Understatement of the Government contributions.	It is a policy of NWS&DB to set off the Value Added Tax against the proceeds of Government contribution. The matter was referred to the Srilanka Accounting & Auditing Standard Monitoring Board and their instruction are attached in annexure 01	The respective cost should be brought to financial statements as enable to reflect the total contributions of the Government.
(b) Even though reimbursable foreign Grant amounting to Rs.198.93 million received from the World Bank to the General Treasury during the year under review, a sum Rs.71.4 million had only been received by the Project and the balance amount of Rs. 127.53 million had not been shown as receivable from the General Treasury. As a result, World Bank Grant account had been understated by same amount in the financial position of the Project.	Understatement of the World Bank Grant by Rs.127.53 million in the financial position of the Project.	Although the Rs. 198.92 Million has been received to the general treasury, Rs. 137.74 was not yet given to the NWS&DB. Also this is not recorded as payables by the General Treasury to the NWS&DB. Since this can not be utilized after the project period the physically received amount was recorded as grant.	The respective proceeds of grant amount should be brought to financial statements as enable to reflect the total contribution of the world bank grant.
(c) Contribution of the Foreign Grant and Government Grant had not been separately disclosed in compliance with the section 45 of the LKAS -01.	Not complied with the paragraph 45 of the LKAS-01	Foreign grant physically received amount is Rs. 563,188 Million and Government Grant is Rs. 569.97 Million. The detail is given in annexure 2.	Action should be taken to follow the provisions in the LKAS 01.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Initially the Project had planned to achieve 13,107 Nos of sewer connections under the output 01 and 2,300 nos. of on-site improvements under the output 02. However, subsequently the number of sewer connections had been revised from 13,107 to 5,015 under the output 01 and the number of on-site improvements from 2300 to 3,785 under the output 02, due to the sewer connections and project cost increased.

Components	Activities	Performance as at 31 December 2019		Impacts	Responses of the Management	Auditor's Recommendations
		Target	Achieved			
(a) Sewer connections (Output - 01)	Connections	5,015	4,793	Target had not been achieved at the end of the Project Period.	Output 1a2 connection for within the premises was reduced from 750 to 336 due to partial completion of Moratuwa/ Ratmalana main sewers by the Moratuwa/Ratmalana, Jaela/Ekala WWD project. But output 1a1 and output 1c1 were given more than the targeted amount as 173 more connections (Total 898) output 1a1 and 32 additional connections in (total 1115) output 1c1. Including that 4793 connections were provided under output 1 which is more 95.57% from the target. This target was achieved while introducing properly designed simplified sewer extensions and Decentralized Wastewater Treatment Systems (DEWATS) and new innovative approaches which were highly succeeded with comparatively very low cost per sewer connection. In addition to that this project was implemented as a pilot project to check the	Immediate actions should be taken to achieve the targets within the Project period.
(b) On-site improvements (Output-02)	Installation of Sewer Treatment Units	3,785	3,554			

applicability of Output based aid (OBA) financing approach and new technical approaches.

Output 2-Onsite Sanitation improvement component was a new approach to provide sanitation solution to suburban and scattered areas where Centralized or Decentralized systems are not viable. In this sub project new technical approach was successfully implemented while piloting public private partnership for maintenance of new system. This project had to be done while convincing public and other stakeholders to select more than 3500 beneficiary households. Due to the new design and technology use for on-site sanitation improvement component project had to implement while solving difficulties which do not have prior experience. Site have scattered in 3554 locations in 7 local divisions in Colombo and Gampaha districts. Even though with above new challenges, 3,554 facilities were provided.

### 3.2 Matters in Contentious Nature

Audit issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) The activities of the Project had been completed in March 2019 and dead line for the reimbursable foreign grant was in July 2019. However, action had not been taken to capitalize the assets and prepare the winding up accounts even up to 30 June 2020.	Delay in preparation of winding up accounts	Capitalization for the project has been already initiated and all capitalization works will be completed within year 2020.	Immediate action should be taken to capitalize the asset and prepare the winding up accounts without delay.

(b) Even though the final reimbursement of the foreign grant received on 21 May 2019, action had not been taken to settle the final bills of the contract construction of on-site sanitation improvement package-3c even up to 30 June 2020.	Delay in preparation of winding up accounts	Final bill of the contract was submitted by the contractor. Instructions have been given to the contractor to rectify all defects to release retention money.	Immediate actions should be taken to settle the outstanding payments without delay.
--	---	---	---

### 3.3 System and controls

Audit issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) The activities of the Project had not been audited by the internal audit section of the National Water Supply and Drainage Board, as per the circular No. 05 of July 2010 of the Department of Management Audit.	Poor control over financial and operational activities of the project may adversely affect the project performance.	Internal audit was carried out for the year of 2016 (letter attached) and the report was submitted on 06.02.2019 by the internal audit section of NWS & DB. Final audit was started for the year 2019 in the first quarter of the year 2020 and auditing work was delayed due to COVID 19 pandemic situation. Final audit will be done and the report will be submitted by the internal audit section soon.	Action should be taken to implement an internal audit.
(b) Fixed Asset Register of the Project had not been maintained properly and verification of fixed asset had not been carried out by of the Project for the year 2019 in terms of Financial Regulation 756.	Poor control over fixed assets may adversely affect the performance of the project.	All direct purchased items were maintained in an inventory register and items handed over by contracts were also included in to the register and all items will be transferred to NWSDB via inventory item transfer . Fixed asset verification was conducted in the year 2015 and fixed asset verification will be conducted.	Action should be taken to maintenance of fixed asset register and to carry out the Board of survey in time.