

Sanitation and Hygiene Initiative for Towns Project (Phase-01) - 2020

The audit of financial statements of the Sanitation and Hygiene Initiative for Towns Project for the year ended 31 December 2020 was carried out under my direction in the 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 Credit Facility Agreement No. CLK 1013 – 01 K of 01 June 2016 and Financing Agreement No. CLK 1013 – 02 L of 16 March 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise de Development. My comments and observation 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 Credit Facility Agreement and Financing Agreement of the Project, then Ministry of Water Supply and Drainage, presently Ministry of Water Supply 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 (a) extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people in Negambo municipal council area, (b) Clarify and enhance the water and sanitation sector frame work (c) facilitate access to the service for disadvantaged households through the development of pro-poor policies designed to fight poverty (d) 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 Agence 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 required to be contributed 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 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 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 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.

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

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. Physical Performance

2.1 Physical Progress of the activities of the Project

Activities -----	Physical Progress as at 31 December 2020 -----		Responses of the Management -----	Auditor's Recommendations -----
	Expected -----	Actual -----		
Construction of collection system with pump house and house connection for Negombo Wastewater Disposal System.	Contract was Scheduled to be awarded in September 2019.	Contract was not awarded even up to 30 June 2021.	Procurement of Design and Supervision Consultancy (DSC) contract (study phase 18 months) commenced on 21.08.2018 and accordingly, works contracts were scheduled to be awarded in November 2020. However, due to April 21 st incident, carrying out of drone surveys were delayed due to strict procedures and protocols insisted by the Government. Further, due to prevailing covid-19 pandemic, project activities were delayed. Currently, SHIFT project has expedited project activities to award the contract.	Actions should be taken to expedite the Project activities since loan closed on June 2022
Improvement of sanitation facilities in low income communities in the Project area.	Contracts was Scheduled to be awarded in June 2018	Contract was not awarded even up to 30 June 2021.	Delayed due to COVID situation. However, project activities were expedited to award the contract.	Action should be taken to expedite the work.
Land Acquisition	12 no of land in Negombo, 17 no of land in Galle and 7 no of land in Unawatuna	Lands acquisition process are on-going	Negombo : WWTP land and two pumping station lands were identified as critical lands. For the WWTP lands- Section 4 inquiry has been completed. Decision pending.	The NWSDB should be taken immediate action to get transferred the ownership of the land.

For two pumping station lands- Actions are being taken to go for direct purchasing after section 4 inquiry. There is no restriction to access lands owned to Negombo Municipal Council and DS office. We already expedited land related works of the other 6 Numbers of private lands. Above measures were taken to avoid any possible delays to handover lands to contractors in the construction stage. Galle & Unawatuna. Already expedite land acquisition works.

Policy and Institutional Enhancement Consultancy (PIEC)

93%

73%

Initial delay was due to procurement delays. Further, due to Covid 19 pandemic, it was difficult to had successful stakeholder workshops. However, over 95% of work of this contract is completed and target finish date is 31.07.2021

Action should be taken to expedite the work.

Sewerage Management Skills Development Consultancy (SMSDC)

Procurement process was scheduled to be commenced in November 2018.

Procurement process was not started.

Package 1: (Service Contract) under SMSDC – EOI document evaluation stage
 Package 2: Supply & delivery of equipment and tools for the sewerage O&M – Document evaluation stage
 Package 3: Support for development activities in the NWSDB training centre – preparation stage
 Project activities are expedited to avoid delays

Action should be taken to expedite the work.

Design and supervision Consultancy (DSC)	61% (Feasibility studies in Negombo, Galle & Kelaniya.)	35% (Feasibility studies for all three areas are ongoing.)	Behind the program due to banning of drone surveys and security issues due to 21 st April 2019 incident and travel bans imposed by several countries due to prevailing Covid 19 pandemic situation.	Action should be taken to expedite the work.
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2.2 Contract Administration

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
The Lending Agency had recovered a sum Rs.318.70 million as commitment charges on undisbursed loan balance up to 31 December 2020 as a result of the loan disbursements had been commenced in 2018 after two years from the date of the Agreements sign in 2016	Initial delay due to delay in procurement of Design and Supervision Consultancy (DSC) contract caused delay in commencement of work and start of loan disbursement.	Actions should be taken to expedite Project's activities.

2.3 System and Controls

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
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.	Internal Audit has been done, report to be submitted.	Action should be taken to ensure the internal audit report to be submit in time.

2.4 Matters pointed out in previous Audit Reports which remained unresolved

Audit Issue	Response of the Management	Auditor's Recommendation
<p>-----</p> <p>The National Water Supply and Drainage Board had scheduled to construct a waste water treatment plant in Galle district and designing part of the treatment plant had been completed by the Project. Further, the National Water Supply and Drainage Board had selected a land for that purpose and commenced the acquisition process at the end of year 2014 and it had completed on 17 June 2019. However, the National Water Supply and Drainage Board had not been transferred legal ownership of the land even up to 30 June 2021, due to delay in judgment on case filed by the National Water Supply and Drainage Board to recover the advance already paid for the purchase of the land.</p>	<p>-----</p> <p>Land acquisition process is ongoing. Section 38A has been issued and now there is no restriction for the access to land. Awaiting the detail survey map to go for valuation. In addition the legal case will be handled by the NWSDB legal section separately.</p>	<p>-----</p> <p>Land acquisitions should be carried out in an effective, economical and efficient manner.</p>