

Greater Colombo Wastewater Management Project --2013

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2013 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 27 of Schedule 5 of the Loan Agreement No 2557 and Section 27 of Schedule 5 of the Loan Agreement No. 2558 dated 18 December 2009 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Greater Colombo Wastewater Management Project, the Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project and the responsibility for the execution of the Project is vested in the Ministry of Local Government and Provincial Councils. The objective of the Project is to improve the urban environment and public health for 1.5 million urban and suburban residents in Greater Colombo through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. According to the Loan Agreements, the estimated total cost of the Project is US\$ 109.12 million and out of that US\$ 94.37 million was agreed to be financed by the Asian Development Bank and the balance sum of US\$ 14.75 million is financed by the Government of Sri Lanka. The Project commenced its activities on 09 April 2010 and was scheduled to be completed by 31 December 2014. However the period of the Project had been extended up to 30 June 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 Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control

relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc.

- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan Agreements had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, except for the effects of the adjustments arising from the matters referred to paragraph 5 of this report, I am of opinion that,

- (a) The Project had maintained proper accounting records for the year ended 31 December 2013 and the Financial Statements give a true and fair view of the

state of affairs of the project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (b) The funds provided had been utilized for the purposes for which they were provided;
- (c) The withdrawals from and the replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) The statements of expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) Satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) The financial covenants laid down in the Loan Agreement had been complied with

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and the information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 834,577,073 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 1,493,930,206. A summary of the expenditure for the year under review in the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013	2012	
	Rs	Rs.	Rs.
Consultancy Service Fees	125,462,716	226,825,983	474,559,741
Property, Plant and Equipment	664,062,882	229,535,268	902,437,416
Financial Charges	20,720,465	17,895,874	59,126,838
Social Mitigation	-	66,000	871,120
Training Expenditure	1,416,309	1,413,010	2,829,319
Incremental Cost	22,914,701	15,388,835	54,105,772
	<u>834,577,073</u>	<u>491,124,970</u>	<u>1,493,930,206</u>

4.2 Imprest Fund Accounts

According to the financial statements and information made available, two separate Imprest Fund Accounts had been opened for special operations and ordinary operations. The operations of two Imprest Fund Accounts during the year 2013 and the balances available in those accounts as at end of the year 2013 are given below.

(a) **ADB Loan No. 2557 - SRI SL 140 (Ordinary Operations)**

	<u>US\$</u>	<u>Rs</u>
Balance as at 01 January 2013	162,633.98	20,680,667
<u>Add</u>		
Replenishments	98,709.53	12,990,175
Foreign Exchange Gain	-	473,034
	<u>261,343.51</u>	<u>34,143,876</u>

<u>Less</u>		14,515,421
Withdrawals	111,224.93	-----
	-----	<u>19,628,455</u>
Balance as at 31 December 2013	<u>150,118.58</u>	

(b) ADB Loan No. 2558 - SRI SL 141 (Special Operations)

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2013	4,300.90	546,906
<u>Add</u>		
Replenishments	1,749,371.42	224,189,587
Foreign Exchange Gain	-	2,456,117
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	1,753,672.32	227,192,610
<u>Less</u>		
Withdrawals	1,263,192.41	163,060,891
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Balance as at 31 December 2013	<u>490,479.91</u>	<u>64,131,719</u>

5. Audit Observations

Assets Management

The Project had not maintained the Register of Fixed Assets for use in the physical verification of assets such as motor vehicles, machinery, computers and accessories purchased by the Project at a cost of Rs.577.82 million for Waste Water Management purposes.

According to the contract agreement for the rehabilitation of sea outfalls, the contractor is required to procure 02 double cab motor vehicles for use by the Project Engineers and a sum of US\$ 100,000 had been allocated for this purpose in the Bill of Quantities. But the physical existence of the assets could not be verified due to the lack of information in the Register of Fixed Assets.

6. Financial and Operating Review

6.1 Funds Utilization

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and cumulative budgetary allocation and actual funds utilization as at 31 December 2013 are shown below.

	Amount agreed for financing in the Loan Agreements		Budgetary Provision for the year 2013	Funds utilized during the year 2013	Cumulative Budgetary Provision up to 31 December 2013	Funds Utilized as at 31 December 2013	
	USD Mn	Rs. Mn.	Rs. Mn.	Rs. Mn	Rs. Mn.	USD Mn	Rs. Mn.
ADB	94.37	10,380.70	810.00	674.90	2,800.00	9.57	1,245.56
GOSL	14.75	1,622.83	110.00	110.00	415.00	-	198.69
Total	<u>109.12</u>	<u>12,003.53</u>	<u>920.00</u>	<u>784.90</u>	<u>3,215.00</u>	<u>9.57</u>	<u>1,444.25*</u>

* The amounts shown in this table are prepared on cash basis, therefore, the funds utilized as at 31 December 2013 is not agreed with the cumulative expenditure of the Project as at 31 December 2013 as shown in the Section 4.1 of this report.

The following observations are made.

- (a) According to the above information, only US\$ 9.57 million equivalent to 8.77 per cent of the total allocated had been utilized even after the elapse of 52 per cent of the Project period.

- (b) Although 7.6 per cent of total allocation amounting to Rs.920 million had been made in the budget for the year 2013 for 08 components of the Project, only Rs784 million representing 85% percent of the total provisions had been utilized during the year under review. Details of under utilization of provisions are given below.

Item	Amount Allocated for the year 2013	Actual Expenditure for the year 2013	Under- utilized amount
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	Rs.millions	Rs.millions	Rs.millions
(1) Project Management and Implementation Support			
1.1 Project Management (Design, Supervision and Management Consultant) and Institutional Development Consultant	180,000,000	150,946,624	29,053,376
1.2 Training and Workshops	2,000,000	1,811,519	188,481
1.3 Project Administration in CMC	45,000,000	36,681,633	8,318,367
(2) Strengthening Institutional and Operational Capacity			
2.1 Equipment for Institutional Support	10,000,000	2,396,386	7,603,614
2.2 Capacity Development (Pro Poor Sanitation Consultant, Public Awareness Campaign, Non –Governmental Organizations)	6,000,000	-	6,000,000
(3) Upgrading Sewerage Infrastructure			
3.1 Civil Works	300,000,000	222,901,827	77,098,173
3.2 Infrastructure in CMC (Supply of Non fixed operational equipment)	355,000,000	349,444,759	5,555,241
3.3 Interest charged on CMC	22,000,000	20,720,465	1,279,535
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Total	<u>920,000,000</u>	<u>784,903,213</u>	<u>135,096,787</u>

6.2 Physical Performance

Although a detailed work plan had been prepared at the beginning of the Project for the achievement of targets of Project components, the Action Plans with financial targets had not been prepared annually. Therefore, monitoring and supervision of the activities of the project was not satisfactory. Some of the instances observed in audit are described below.

- (a) Delays in awarding the contracts under following components of the Project were observed.
 - (i) Repairs to sea falls including removal of accumulated grit
 - (ii) Construction of new pump station and rehabilitation of pump stations in CMC area
 - (iii) Construction/ rehabilitation of NW&DB operated pump station
 - (iv) Construction of gravity sewers in CMC area
- (b) The activities carried out under pump station investigations, detailed designing and bid preparations for future expansion of unsewered areas, planning for secondary treatments and preparation of preliminary designs thereon, preparation of GIS maps/ database and network models and preparation of manuals and guidelines etc had not been completed on due dates .
- (c) Further, the targets stipulated by the Design Supervision Consultant Team for 2013 had not been achieved satisfactorily. Therefore, the targets made on institutional developments, training program management assets management system and investment planning had shown slow progresses.