

Pilisaru Project

1. Audit 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 except for the effects on the financial statements of the matters referred to in paragraph 4 of this report, the balance sheet as at 31 December 2010 together with the schedules and the other connected financial statements for the year then ended, had been satisfactorily prepared in accordance with the Generally Accepted Accounting Principles to present fairly the financial position of the Project as at 31 December 2010 and the financial performance of the Project for the year then ended and that the funds provided have been utilized for the intended purposes.

2. Audit Observations

2:1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The retention money amounting to Rs.6,874,089 relating to 05 construction contracts had not been included in the accounts.
- (ii) Accrued expenses amounting to Rs.1,180,898 relating to 09 instances had been omitted from the accounts.
- (iii) Out of the mobilization advances granted in 04 instances a sum of Rs.20,909,285 recoverable as at 31 December 2010 had been omitted from the accounts.
- (iv) The refund of refundable bid deposits amounting to Rs.200,000 recovered from 20 bidders in connection with the construction of the Kalutara

Compost Yard, had been brought to account as an expenditure of the year under review.

- (v) The cost of 07 Projects commenced from the year 2008 but not completed up to date amounting to Rs.217,732,949 had been brought to account as expenditure of each respective year instead being brought to account as work-in-progress.

2:2 Unreconciled Control Accounts

The following observations are made.

According to the files, the compost bins received had been 17,000 and the issues according to the stock book had been 7,737 and as such the balance stock amounted to 9,263 bins. Nevertheless 23 bins valued at Rs.49,284 had been shown in the balance sheet as the closing stock as at 31 December 2010. As such a stock of 9,240 bins valued at Rs.19,848,756 had been omitted from the books.

2:3 Lack of Evidence for Audit

The supporting documents indicated against each item shown below had not been furnished to audit.

Item	Amount	Evidence not made available
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	Rs.	
Advances Paid - Ministry of Local Government and Provincial Councils	44,927,866	Plans, Estimate and Detailed Schedules.
Project Expenditure - Ministry of Local Government and Provincial Councils	8,722,158	Work Done Certificate

Balance Stocks	200,173	Stock Verification Reports.
Recurrent Aid Payable.	6,723,045	Schedules
Purchase of 40 Iron Sheets	1,222,857	Estimates and Goods Received Notes
Ten per cent Retention Money	6,874,089	Detailed Schedules.
Mobilization Advances	20,909,285	Register of Mobilization Advances
Sundry Receipts and Payments made by Journal Entries.	61,821,009	Journal Entries from No. 01 to 198.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The instances of non-compliance with the following laws, rules, regulations, etc. were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

 (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

 (i) Financial Regulation 371

 Advances amounting to Rs.650,000 granted on 17 August 2010 had not been settled even by 31 December 2011.

(ii) Financial Regulation 396(c)

Action in terms of the Financial Regulation had not been taken on 25 cheques valued at Rs.69,076 lapsed for more than 06 months.

(iii) Financial Regulations 756 and 757 A Board of Survey of the physical assets had not been conducted and the reports had not been furnished to the Auditor General.

(iv) Financial Regulation 1646 Motor Vehicle Log Books, Registers of Accidents and the Records of Fuel Consumption of motor vehicles utilised by the Project had not been maintained.

(b) Circular Provisions

Management Services Circular No. 33 paragraph 5.2 Four posts of Deputy Directors of the Project Staff who are not entitled to fuel allowance in terms of the Circular had been given group transport facility by the Board Paper No. 271/1538/08 dated 28 July 2008.

2:5 Transactions of Contentious Nature

A sum of Rs.3.2 million had been paid annually to the Central Environmental Authority for the maintenance of the Project Office. Action had not been taken in connection with the sum of Rs.1.5 million spent by the Project for the construction of garages in the premises of a building procured rent.

2:6 Operating Inefficiencies

Non-achievement of Objectives

- (i) According to the budget estimates, the Treasury had considered the establishment of a waste management system in the High Level Road area in the Colombo Districts for the Pilisaru Solid Waste Management Project as the main objective and provision amounting to Rs.123 million, Rs.265 million and Rs.695 million had been made in the years 2008, 2009 and 2010 respectively for that objective of creating permanent sustainable solid waste management programmes. Nevertheless, it was observed that the programme had not been commenced even by December 2010.
- (ii) Even though taking legal action against the Local Authorities which do not dispose of solid waste properly is one of the objectives, no evidence of any legal action taken in connection with the environmental pollution caused by the irregular dumping of Waster along the Bloemandhal Road, Colombo and the High Level Road, Nawinna was not made available to audit.

2:7 Underutilisation of Funds

The Korean International Co-operation Agency (KOIKA) had given a sum of Rs.10,000,000 on 20 August 2010 for the construction of the Dompe Compost Yard and out of that a sum of Rs.223,511 only had been spent in the year. As such the sum of Rs.9,776,489 not utilized for the purpose had been returned to the Treasury on 31 December 2010.

2:8 Idle and Undetutilised Assets

An agreement had been entered into on 05 July 2010 for the establishment of a biogas unit in the premises of the Sri Jayawardhanapura General Hospital with financial and technical sponsorship of the Pilissaru Project and the Project had allocated a sum of Rs.1,082,879 for the purpose. A sum of Rs.324,864 representing 30 per cent of the value of agreement had been paid on 05 July 2010 as the mobilization advance. According to clause 2.5 of the agreement the Follow

up Action Committee should meet once every month and make arrangements for furnishing a report on the progress of the Project to the Project Director or an officer named by him and to the Central Environmental Authority. But it had not been so done. It was observed in audit that the advance had been returned to the Project on 09 September 2011, that is after the elapse of 14 months from the date of agreement.

2:9 Utilisation of Motor Vehicles of the Project

The following observations are made.

- (a) The Project had 06 motor vehicles and 04 drivers had been attached. A sum of Rs.3,350,855 had been spent in the year under review for fuel, motor vehicle repairs and servicing and the expenditure in the preceding year had been Rs.2,868,589. As such the expenditure thereon in the year under review had recorded an increase of 16.81 per cent.
- (b) A methodology to ensure the use of motor vehicles effectively and according to the regulations had not been followed and the observations made are given in brief below. Daily Running Charts and the Monthly Performance Summaries were incomplete while there were instances where the officer traveling had not certified the Daily Running Charts. Instances of motor vehicles not driven by the drivers, commencement of journeys from places outside the premises of the Central Environmental Authority and differences in the milometer readings at the beginning and the end of journeys were also observed.

3. Project Performance

(a) Financial Performance

Examination of the Action Plan of the Project for the year under review and the actual expenditure indicated that the Action Plan had not been made use of as an effective instrument of control. Details thereon are as follows.

- (i) According to the Action Plan the total provision for the year under review amounted to Rs.695 million. The actual expenditure amounted to Rs.410 million and as such the underutilization amounted to Rs.285 million or 41 per cent.
- (ii) A sum of Rs.8.754 million out of the Project provisions had been spent without authority in excess of the limits of the estimated expenditure limits approved for the year under review by the Board of Management.
- (iii) Out of the provision of Rs.56,800 made for 12 activities in the Action Plan, no expenditure whatsoever had been incurred.
- (iv) Out of the provision made for 05 activities in the Action Plan for the year under review, the expenditure incurred had been less than 10 per cent while the expenditure incurred on 06 activities had been less than 50 per cent.

(b) Physical Performance

The main objective of the Pilisaru Project is the solid waste management. The General Treasury had allocated provisions amounting to Rs.5.6 billion for the period of 03 years from 2008 to 2010 for the achievement of the above objective. The provision according to the Budget Estimates of the Government of Sri Lanka and the actual expenditure are as follows.

	2008 ----- Rs.	2009 ----- Rs.	2010 ----- Rs.
Provision made from the Consolidated Fund	107,553,359	877,080,000	695,000,000
Actual Expenditure	107,553,359	252,743,886	410,194,602
Utilisation as a Percentage	100	29	59

The following observations were made from the above table.

- (i) The expenditure incurred in the year under review included Rs.164,081,106 spent on the construction of Compost Yards and landfills, a sum of Rs.33,666,023 paid to the Urban Councils and Pradehsiya Sabhas for the establishment of small scale solid waste management projects and Rs.35,700,024 paid to the National Solid Waste Management Assistance Centre for the projects implemented by it with the financial assistance from the Pilisaru Project.
 - (ii) Provision amounting to Rs.2,079,613,359 had been made for the years from 2008 to 2010 for the solid waste management which is the main objective of the Pilisaru Project and Solid Waste Programmes had been implemented at an actual expenditure of Rs.770,491,847. Even though such expenditure had been incurred, a solution had not been provided even up to the year 2011 for the management of the 800 tons of garbage accumulating daily within the limits of the Colombo Municipal Council and the 50 tons of garbage accumulating daily within the limits of the Maharagama Urban Council.
- (c) Construction of Compost Yards
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- (i) Kolonnawa Pothuwilkumbura Compost Yard
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- The objective of this yard had been the management of 40 metric tons of garbage daily and provision amounting to Rs.156,170,000 had been made for 03 years up to the year 2010. The construction work was scheduled for commencement on 22 January 2010 at an

agreed sum of Rs.105,502,007 and completed within a period of 09 months at a cost of Rs.36,619,155. The work of the Compost Yard had not been completed and handed over even by the time of physical inspection of the yard carried out on 23 August 2011. The cable machines which are an essential component of the Garbage Management Programme had not been established even up to the physical inspection carried out on 23 August 2011 while an agreement had not been signed for the erection of the security fence. Even though clauses 02 and 03 of the letter of award of the project dated 18 December 2009 provided for a performance bond, it had not been produced. It was observed that a large quantity of water oozing from the garbage dump was flowing in to the Kolonnawa Canal. The Project did not have any plans to manage the situation and as such foul stench had pervaded into a mosquito infected area.

(ii) Construction of a Residential Training Centre for the Solid Waste Management of the Weligama Urban Council

The construction comprised 02 stages and the provision made for Stage I in the year 2008 amounted to Rs.1,446,800 and the estimate for Stage II amounted to Rs.1,510,225. The Central Environmental Authority and the Weligama Urban Council had entered into an agreement in the year 2008 for a sum of Rs.1,500,000 for establishing a residential training centre. Out of the provision made for the purpose a sum of Rs.1,366,264 had been spent in the years 2008 and 2009. Even though the estimate for the proposed Stage II of construction had been approved provisions had not been made available. The physical existence of a partly constructed building left unutilized for 03 years without proceeding with the balance work was observed. The building completed at present without conforming to the objectives expressed in the agreement was being used by the Weligama Urban Council for maintaining an animal farm. The Project had spent an additional sum of Rs.254,049 in conducting training on production of compost in hotels without completing the building and utilizing it for the purpose.

(iii) Compost Yard of Kuliypitiya Urban Council

The objective was for managing 08 tons of garbage daily. The estimate and the expenditure for the year 2009 amounted to Rs.38,292,000 and Rs.25,879,845 respectively. The Project had been opened on 07 February 2009. It was observed at the physical inspection on 09 August 2011 that the compost was being produced and that the selection of garbage was being done by 12 employees without using the machinery. Even though the Pilisaru Project had made available a sum of Rs.31,576,075 for the purchase of equipment for the project, the Pilisaru Project had not given a list of equipment to be procured or to obtain a list of goods obtained. In addition, the non-degradable garbage left after the production of compost had been accumulating in the premises without finding a solution for disposal.

(iv) Solid Waste Management Project of Pannala Pradeshiya Sabha

The objective was for the production of 18 tons of compost monthly by utilizing 03 tons of garbage per day. The estimate and the expenditure for the year 2009 amounted to Rs.4,061,130 and Rs.4,032,280 respectively. According to the report furnished by the project, the present compost production had been 0.6 tons. The project indicated that this is the expected status. The non-degradable garbage left after production had been accumulating in the premises. The physical inspections revealed that solution for the disposal of discarded garbage had not been provided to any of the projects implemented.

(v) Compost Yard of Matara Municipal Council

The objective was for the management of 40 tons of garbage daily. The provision and the expenditure for the year 2009 amounted to Rs.45,950,000 and Rs.26,286,562 respectively. The yard is situated on a land 03 acres in extent. It was observed at the physical inspection that the yard receives about 12 tons of garbage daily and that a tank 6 feet long, 5 feet wide and 8 feet deep constructed for collection of the water seeping in the process of compost production. A sum of Rs. 5,211,451 had been spent in the year 2009 for the Leachete Treatment Facility. The tank constructed for the collection of waste water was not adequate to collect the water seeping from the garbage received by the yard, thus resulting in the overflow of water causing in a stench. Small insects were observed in the area of the overflow. In addition discarded plastic and garbage unfit for production of compost had been piled up separately.

(vi) Garbage Management Project of Monrovia Estate, Hikkaduwa

The Project had been planned to manage 50 tons of garbage and the expected compost production had been 07 tons. The provision for the year 2010 amounted to Rs.35,100,000 and the engineering estimate of the cotnract amounted to Rs.83,432,427. The payment made for construction works in the year 2010 amounted to Rs.1,653,277 and the payments made up to 31 August 2011 amounted to Rs.39,388,575. This was planed for the recycling of garbage of 06 Local Authorities. A difference of Rs. 18,360,980 was observed between the quotation furnished by the private company selected by the Pilisaru Project and the lowest quotation furnished by an another company. The contract had been awarded to a C Level bidder ranked at the 7th place despite the much lower quotations furnished by 05 bidder registered with the Institute of Construction Training and Development at C2 and C3 levels. According to the agreement for the construction of the Hikkaduwa Compost Yard, the project construction work was entrusted to the selected company on 08 February 2011 and the work should have been completed and handed over to the Pilisaru Project on 09

September 2011. A physical inspection of the Project carried out on 26 August 2011 revealed that the construction work was at a very minimum level. Nevertheless the payments made to the contractor company from 01 January 2011 to 31 August amounted to Rs.39,388,575 or 47 per cent of the contract value. A sum of Rs.1,800,000 had been determined as the consultancy fee payable to the consultancy firm selected based on the contract value of Rs.75,000,000 (Rs.75,000,000x3%x80%) and a sum of Rs.1,338,750 had been paid. Nevertheless, due to the revision of the contract value in the year 2011 to Rs.83,432,427, the consultancy fee had been revised to Rs.2,002,378 (Rs.83,432,427x3%x80%). Even though such consultancy fees had been paid, there was no evidence of any consultancy services provided when matters such as the nature of soil in the site, demolition of side walls constructed and the inadequacy of the planned construction period are taken into consideration.

4. Management Inefficiencies

According to the schedules furnished by the Pilisar Project large variances were observed in the preparation of financial provisions made in the estimates for the proposed large scale projects and the small scale projects considered on the basis of quantities of garbage dealt with daily.

Project	Daily Quantity of Garbage	Number of Local Authorities Covered	Approved Amount
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			Rs.
(i) Medirigiriya Yudhanganawa Project	10 Tons	02	22,848,484
(ii) Anuradhapura Kirikkulama Project	40 Tons	04	77,322,024
(iii) Kolonnawa Pothuwilkumbura Project	40 Tons	01	112,587,082
(iv) Kalutara Pohorawatta Project	38 Tons	04	72,912,453
(v) Matara Municipal Council	40 Tons	01	45,950,000

(vi)	Kuliyapitiya Urban Council	08 Tons	01	38,292,000
(vii)	Nawalapitiya Municipal Council	08 tons	01	28,650,000
(viii)	Badulla Municipal Council	25 Tons	01	82,475,000
(ix)	Hikkaduwa Monrovia Estate Project	50 Tons	06	93,444,318
(x)	Kurunegala Sundarawatta Project	38 Tons	02	48,000,000
(xi)	Wennappuwa Pradeshiya Sabha	08 Tons	01	21,500,000
(xi)	Tangalla Urban Council	08 Tons	01	23,500,000
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			24	643,981,361
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The following observations are made.

- (i) The quantities of garbage managed by the Anuradhapura Kirikkulama Project, Kolonnawa Pothuwilkumbura Project and the Matara Municipal Council Project are 40 tons in each case while the expenditure incurred on those amounted to Rs.77,322,024, Rs.112,587,082 and Rs.45,950,000 respectively.
- (ii) The quantities of garbage managed by the Kalutara Pohorawatta Project and the Kurunegala Sundarawatta Project are 38 Tons in each case while the expenditure incurred amounted to Rs.72,912,453 and Rs.48,000,000 respectively.
- (iii) Hikkaduwa Monrovia Estate Project and the Badulla Municipal Council Project manage 50 tons and 25 tons of garbage daily respectively and the expenditure incurred thereon amounted to Rs.93,444,318 and Rs. 82,475,000 respectively.

5. Purchase of Compost Bins

The Pilisaru Project had distributed 17,000 compost bins in the year under review at a cost of Rs.40,798,889. The Goods Received Notes had not been issued for 5,726 compost bins valued at Rs.12,269,674.

6. Systems and Controls

Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budget
- (c) Settlement of Advances
- (d) Journal Entries
- (e) Maintenance of Registers
- (f) Construction Contracts
- (g) Utilisation of Funds
- (h) Motor Vehicles Utilisation
- (i) Staff Management