

Ratmalana / Moratuwa and Ja- Ela / Ekala Waste Water Disposal Project -2013

The audit of financial statements of the Ratmalana/ Moratuwa and Ja-Ela/ Ekala Waste Water Disposal 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 Article 11 of the Specific Agreement (Contribution No 71001436) dated 02 March 2006 entered into between the Government of Sri Lanka and the Swedish International Development Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Specific Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The main objective of the Project is to assure the management of pollution in the two areas of Ratmalana / Moratuwa and Ja-Ela /Ekala with appropriate collection of industrial and domestic waste water treatment in central treatment plants with disposal of treated waste water and sludge in such a way that it is not harmful to the environment or the people. The long term overall objectives of the Project are to contribute to improve health and living conditions for people in the area, improved environmental conditions in sensitive eco-systems and establish a sustainable development of the industrial areas around Colombo through provision of sewerage networks and treatment facilities in Ratmalana /Moratuwa and Ja-Ela / Ekala areas. As per the Specific Agreement, the estimated total cost of the Project was US\$ 142.76 million equivalent to Rs.16,300 million and out of that US\$ 91.92 million equivalent to Rs. 10,495 million or 64.4 per cent was agreed to be financed by the Swedish International Development Cooperation Agency as a Loan and US\$ 5.98 million equivalent to Rs. 683 million or 4.2 per cent was agreed to be financed as a Grant and the balance of US\$ 44.86 million equivalent to Rs. 5,122 million or 31.4 per cent was agreed to be financed by the Government of Sri Lanka. The Project commenced its activities on 01 February 2008 and scheduled to be completed by 30 June 2013. Subsequently, the period of the Project had been extended up to 31 December 2015.

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 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.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) 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 identifications of the purchases made out of the Loan and Grant, etc.
- (d) Whether the funds, materials and equipments supplied under the Loan and Grant 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 Sri Lanka Accounting Standards.
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- (h) Whether the financial covenants laid down in the Specific Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 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 Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Specific Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

A sum of Rs.4,175,369 payable to the contractor as at 31 December 2013 had not been brought to account. In addition, a sum of Rs. 85,389,881 payable to the Consultant as at 31 December 2013 had also not been brought to the accounts.

2.2.2 Non - Compliance with Laws, Rules and Regulations

The following instances of non-compliances were observed in audit.

- (a) According to the Section 08 of the Public Contract Act, No. 03 of 1987, the contractors who accepted contracts valued at Rs. 5 million or more should be registered with Registrar of Public Contract. Unless the agreement is registered within 60 days after the awarding of the tender and the client should not deal with the contractors. However, the Project had dealt with 03 contractors who had not fulfilled the above requirement.

- (b) A Register of Fixed Assets had not been maintained by the Project. Further, physical verification had not been carried out for the year under review as required by the Financial Regulation No.756 to ensure the existence of the assets as at 31 December 2013.

2.2.3 Unsettled Audit Issues Highlighted in the Previous Audit

The following audit issues highlighted in my audit report issued in the previous year had remained unresolved.

- (a) A land acquired to construct a pumping station at a cost of Rs. 20.28 million and 07 motor vehicles procured at a cost of Rs. 28.23 million by the Project in 2012 had been shown in the financial statements as work-in-progress, inappropriately.
- (b) As per the Article I of the Specific Agreement, the treated water and sludge of Ja-Ela / Ekala Waste Water Control Treatment Plant should be disposed in such a way that is not harmful to the environment and the people. However, no such system had been implemented even at the date of the audit on 30 August 2015.

3. Financial and Physical Performance

3.1 Utilization of Funds

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

Source	Amount agreed for financing according to the Specific Agreement		Allocation made in the Budget	Funds utilized			
	US\$ million	Rs. million	Estimate for the year under review Rs. million	during the year under review		as at 31 December 2013	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Loan	91.92	10,495	600	8.92	1,137.47	84.55	9,686.14
Grant	5.98	683	100	0.90	115.95	6.22	740.06
GOSL	44.86	5,122	600	1.98	256.10	27.67	3,283.90
	<u>142.76</u>	<u>16,300</u>	<u>1,300</u>	<u>11.80</u>	<u>1,509.52</u>	<u>118.44</u>	<u>13,710.10</u>

3.2 Physical Progress

According to the Progress reports of the Project, the construction Ja-Ela / Ekala waste water control treatment plant and pipe laying activities had been substantially completed as at 31 December 2013. Eventhough the construction of Moratuwa/ Ratmalana waste water control treatment plant and pipe laying activities had shown a progress of 86.04 per cent as at 31 December 2013 the other subsidiary activities such as rider pipe laying, construction of manholes and pressure testing etc had shown a slow progress of 48.17 per cent.

3.3 Contract Administration

The contract for the construction of waste water control treatment plants and pipe laying activities under the Project had been awarded to a foreign Joint Venture in 2008 and the respective Contract Agreement had been terminated in November 2013 as the Lead Partner of the Joint Venture was bankrupt. At the time of termination of the contract, the actual losses had not been ascertained and recovered by the Project from the performance bond. A contract for the balance works had been awarded to the remaining Partner at a cost of US\$ 2.38 million equivalent to Rs 314.26 million.

3.4 Matters in Contentious Nature

As a practice, the computation of the remuneration for the staff of the Project is done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged from the Project. The overhead expenditure so paid by the Project to the National Water Supply and Drainage Board as at 31 December 2013 amounted to Rs. 250.91 million.

3.5 Uneconomic Transactions

The Project had not taken action to settle the claims to the contractors on due days. Therefore, delay charges thereon amounting to Rs. 7.52 million had been paid by the Project during the year under review.