

Kandy City Wastewater Management Project - 2018

The audit of the financial statements of Kandy City Wastewater Management Project for the year ended 31 December 2018 was carried 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 the Loan Agreement No. SL-P 99 dated on 26 March 2010 entered between Democratic Socialist Republic of Sri Lanka and the Japan Bank of International Cooperation presently known as Japan International Cooperation Agency. My comment and observation which consider should be reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, presently Ministry of City Planning Water Supply and Higher Education is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas and thereby enhance the standard of living, health and well-being of the people in the area. The estimated total cost of the Project is amounted to Japan Yen 17,278 million equivalent to Rs.21,982 million and out of that Japan Yen 14,087 million equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency and the balance amount of Japan Yen 3,191 million equivalent to Rs. 4,060 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2022

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 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Auditor's 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 Generally Accepted Accounting Principles 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.

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 identify during my audit

2. Comments on Financial Statements

2.1 Accounting Deficiency

Accounting Deficiency	Impact	Comments of the Management	Auditor's Recommendation
The value of civil work-in-progress of the Project amounting to Rs.6,593.66 million shown in the financial statements of the National Water Supply and Drainage Board as at 31 December 2018 was not agreed with the corresponding value of work-in-progress amounting to Rs.9,114.40 million shown in the financial statements of the Project as at that date.	Weaken Internal Control system.	Action will be taken to reconcile the difference s with the records maintained by the National Water Supply and Drainage Board.	Need to reconcile the balances in timely manner.

2.2 Non-compliance with Laws Rules and Regulations

The following observations are made.

	Reference to the Laws Rules and Regulations	Non-compliance	Impact	Comments of the Management	Auditor's Recommendations
(a)	Schedule- 02 of the Loan Agreement No. SLP 99	The local expenses such as hotel charges, cost of meals etc. aggregating Japan Yen 2.58 million equivalent to Rs. 3.70 million under the contracts of design and construction of waste water treatment plant, main pump station, treated effluent disposal system, sludge drying beds etc spent by the Project had been reimbursed.	The Project reimbursed ineligible expenses.	Not commented.	Action need to be taken to avoid such situations.
(b)	Management services Circular No. 01/2016 of 24 March 2016	The Project had recruited a person for the post of Project Coordinating Office which not included in the carder positions approved by the Department of Management Service. The respective officer had not involved with the activities of the Project and not maintained attendance records. However, the Project had spent remuneration of Rs. 1.79 million and leasing charges of Rs.2.53 million on assigned motor vehicle since April 2016.	Fruitless expenses.	Project Coordinating Officer had been appointed by a board decision dated 06 April 2015	The responsible parties should be identified.

3.2 Contract Administration

The following observations are made.

Audit Issue	Impact	Comments of the Management	Auditor's Recommendations
(a) The contract on providing of sanitary facilities for low income groups had been completed on 21 March 2018 and defect liability period was ended on 21 March 2019. However, the contractor had not attended for the rectification works highlighted by the Project even up to 30 August 2019.	The expected benefits to the stakeholders will not be reached as the sustainability of the construction works are remained in doubt.	Not commented	The contractors need to be influenced to complete the remedial works.
(b) As per the Loan Agreement, the Project had allocated a sum of Rs.152 million to provide sanitary facilities for low income groups. However, the Project had used only a sum of Rs. 60.76 million for that purpose.	Intended benefits of the Project would not be received by the underprivileged groups.	A contract awarded at a cost of Rs.101 million and works remained in progress at the year end.	Need to take prompt action to complete the works under the contract.

- | | | | | |
|-----|--|---|--|---|
| (c) | According to the contract documents the Interim Payment Certificates valued at Rs.30 million or more should be considered for evaluation purposes. However, it was observed that the evaluation of Interim Payment Certificate valued at Rs. 30 million below had been carried out in 04 instances during the year under review. | The time and cost on evaluation would be unnecessarily increased. | It was implemented according to decision of the Implementing Agency made on 06 April 2018. | It allowed opportunities to the contractors for additional financial benefits and need to be minimized. |
| (d) | The Project had commenced construction of Pump Houses in Bowala, Deiyannewela and the premises at Aloka Hospital and Mahanama Primary School in Kandy without being obtained the proper legal rights of the respective lands. | Possible dispute between land owner and the Implementing Agency. | Construction works had been commenced to avoid delays in completion of Project activity. | Action need to be taken to vest the legal rights. |

3.3 Extraneous Activities

The following observations are made.

	Audit Issue	Impact	Comments of the Management	Auditor's Recommendations
(a)	A motor car had been procured by the Project on 18 May 2018 at a cost of JPY 5.5 million and local and demurrage charges amounting to Rs.32.41 million had been spent thereon. However, the motor vehicle had been released to the Ministry of City Planning, Water Supply and Higher Education.	Misappropriation of funds allocated.	Not commented	The actual needs of the Project should be identified prior to make requests for the procurement.
(b)	It was observed that the local taxes on importation of 18 motor vehicles amounting to Rs. 67.22 million had been paid by the Project during the year under review, as the requests on tax exemptions were not made in timely manner. Further, demurrage chargers amounting to Rs. 16.81 million had also been paid by the Project, due to delays in releasing the motor vehicles from the Port over 02 months.	Incurred additional costs, due to late actions taken.	Due to short fall of financial allocation in 2018 demurrage charges had to be paid.	The Line Ministry should take action to monitor the procedure to ensure the effective use of funds.

3.4 System and Controls

The following observations are made.

	Audit Issue	Impact	Comments of the Management	Auditor's Recommendations
(a)	The Executing Agency of the Project had neither taken action to recruit and deploy an Internal Auditor, as required by the Management Audit Circular No. 02/2016 of 10 June 2016 nor carry out audits on the transaction of the Project during the year under review through the Internal Audit Section of the National Water Supply and Drainage Board, as per the Financial Regulation 133.	Weaken Internal controls.	The internal audit works are implemented by the Internal Audit Section of the National Water Supply and Drainage Board.	Need to be strengthen the internal audit functions.
(b)	Physical verification on fixed asset had not been carried out during the year under review, as required by the Financial Regulation 756.	Weaken controls on assets management.	The physical verification is being carried out.	The Project should physically verify the existence of fixed asset.