

Greater Colombo Wastewater Management Project - 2018

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2018 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 and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, the Ministry of Internal and Home Affairs and Provincial Council and Local Government is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agency of the Project. The objective of the Project is to improve the urban environment and public health condition of urban and sub urban residents in Greater Colombo area through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 110.24 million equivalent to Rs.12,597.11 million and out of that US\$ 94.37 million equivalent to Rs.10,783.65 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 1,813.46 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 09 April 2010 and scheduled to be completed by 31 December 2014. However, the date of completion of the activities of the Project had been extended up to 31 December 2020.

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 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 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 of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 Deficiencies

The following observations are made.

No	Accounting Deficiency	Amount Rs. Million	Impact	Response of the Management	Auditor's Recommendations
(a)	The laboratory building constructed by the Project and handed over to the Colombo Municipal Council on 26 April 2016 had been continuously shown under the development expenditure in the financial statements.	5.61	Misstatements of financial statements	Action will be taken to segregate the cost of works completed from the development expenditure.	The accounting policies on assets constructed by the Project and transferred to the Implementing Agency is required to be determined. The cost of the assets which completed the construction works to be transferred to the respective assets account.
(b)	The foreign exchange gain as at 31 December 2018 had been set off against the cost of Non-current assets.	25.22	Understatement of the non-current assets.	Not commented	The real value of the non-current assets should be brought to account.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Section 6 (01) (a) of the Public Contract Act, No. 03 of	The contractor accepts a contract at a cost of Rs. 5 million or more is required to be registered at the Register of Public	The action will not be raised against the contractor	Action has been taken to inform the contractors to comply with the statutory	The action is required to be taken to influence the contractors to comply with these

1987 contract and within 60 on matters requirement requirements days after the signing of connected to the contract. Further, the the legality and taxation contract agreement should be registered at the Register of Public Contract However, the contractors who engaged in civil construction and supplies contract had not complied with this requirement.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

The activities of the Project had been implemented under 03 main components namely, upgrading of sewerage infrastructure, strengthening of institutional and operational capacities and project management and institutional support for the purpose of improving the hygiene and sanitary condition of inland water in Grater Colombo area. The physical progress on works under the rehabilitation of gravity sewers of 10 kilometres of gravity lines and conducting condition assessment of 125 kilometres of sewer lines had remained behind the targets as at 31 December 2018. The scope of the works of the Project was required to be changed, due to recent developments in the Colombo city area, such as development of Port City, Colombo Central Business District, Water Front Development works etc., as a result, the scope of works under the Polwatta and Borella pumping stations had been changed and additional works introduced. Therefore, the impacts on the costs and duration for the completion of the respective works could not be determined in audit.

3.2 Contract Administration

The following observations are made.

No	Audit Issue	Impacts	Response of the Management	Auditor's Recommendations
(a)	The contract for upgrading of Wanathamulla Gravity Sewer Rehabilitation works awarded to a private company on 20 December 2013 had been terminated on 05 April 2017, due to damages made to the private residencies. It was observed that neither a proper environmental feasibility study had been carried out nor safeguards practices adopted by the contractor. Further, it was revealed that the	<p>a) Additional cost on re-procurement of the contract and compensations thereon.</p> <p>b) Delays in completion of the activities scheduled.</p> <p>c) The intended</p>	The Project Monitoring Unit had taken continuous attempt to complete the balance works since the termination of the contract. Since all attempts were not successful, action had been taken to amend a contract in operation and award	The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism over the contractors to avoid additional costs and delays in completion of the activities of the Project.

respective properties were unauthorized and compensation under the insurance coverage could not be raised. As a result, the Project Management Unit had to paid amounting to Rs. 1.92 million. Further, the action had not been taken even as at 31 December 2018 to select a contractor to complete balance works.

facilities would not be reached to the beneficiaries. contractor to achieve the objectives.

- (b) Action had not been taken to recover the mobilization advances amounting to Rs.1,177.86 million made on 30 July 2015 under the contract on designing, construction, installation and rehabilitation of waste water pumping stations of Colombo Municipal Council, due to slow progress on physical works carried out.
- There is a risk to recover the advance payment before 90 per cent of the contract price.
- This contract had no provision to recover the advance payment before 90 per cent of the contract price.
- The advance payment is required to be recovered from interim payments as per Government Procurement Guidelines.

3.3 Idle Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The audit inspection carried out in March 2019 at the environment laboratory of the Project at Madampitiya had revealed that a stock of laboratory items were remained unused for over 02 years.	Possible to Misappropriation of lab equipment and use of the loan proceed fruitlessly.	The inventory items are issued on the request made by the Municipal Council considering their testing needs.	Action need to be taken to investigate the reasons for ordering and retaining inventory items excessively.

3.4 Issues Related to the Environmental Matters

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Environment Officer of the Project had resigned with effect from 22 October 2018. As per the Loan Agreement of the Project, environmental performance of the Project should be monitored	The environmental assessments over the activities of the Project would not be carried out regularly.	Temporary arrangement has been made to assure the compliance with requirement of environment monitoring. Action had already been	This requirement is a must as the activities of the Project are environment sensitive. Therefore, action should be taken

regularly and the reports thereon are required to be submitted to the Lending Agency semiannually.

taken to fill the vacancy. immediately to recruit an Environmental officer.

3.5 Issues Related to Human Resources Management

Cadre Position	As at 31 December 2018 No of Posts			Impact	Response of the Management	Auditor's Recommendations
	Approved	Actual	No. of vacancies			
01. Deputy Project Director (Engineering)				Smooth operations of the Project would be affected.	There is difficulty in retaining qualified individuals, due to prevailing high market rates. Action had been taken to call application and recruit qualified persons.	Prompt actions are required to be taken to deploy suitable persons.
02. Project Engineer (Procurement)	01	-	01			
03. Project Engineer	01	-	01			
	10	08	02			
04. Assistant Project Engineer – II						
05. Construction Manager - I	05	03	02			
	02	01	01			