

Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-03 - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-03 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 4.03 of Article IV of the Loan Agreements No. 3348 and 3349 dated 11 August 2014 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 Programme

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 Programme is to improve water supply and wastewater service and management in Greater Colombo and to improve efficiency and financial sustainability of water supply and wastewater services in Greater Colombo area. As per the Loan Agreements, the estimated total cost of the Project was US\$ 112.83 million equivalent to Rs. 16,401.76 million and out of that US\$ 90 million equivalent to Rs. 13,083.03 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs 3,318.73 million is expected to be financed by the Government of Sri Lanka. The Programme commenced its activities on 03 November 2016 and scheduled to be completed by 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 Programme 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 Programme 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 Programme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Programme's financial reporting process.

The Programme 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 Programme.

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 Programme.
- 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	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendations
The exchange gain on foreign currency transactions had been deducted from the value of non-current assets.	3.22	Understatement of the value of non-current assets	Not commented	Fair values of the non-current assets should be reflected.

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 1987	The contractor who accepts a contract at a cost of Rs. 5 million or more is required to be registered at the Register of Public contract and within 60 days after the signing of the contract agreement, the 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.	It is unable to take action against the contractor on matters connected on legal and taxation.	Action had been taken to inform the contractors to comply with the statutory requirement.	The action is required to be taken to influence the contractors to comply with these requirements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project are implemented under 03 components namely Upgrading Sewerage infrastructure, Strengthening Institutional and Operational Capacity, Project Management and Institutional Support etc,. According to the information received, the progress of the activities of the Programme were remained behind the targets as at 31 December 2018, due to delays in commencement of the of the works, time taken to

receive the approvals for utility clearance, poor performance by contractor and delays in application of procurement process. The contract for the construction of Waste Water Treatment Plant at Wellawatta scheduled to be awarded in October 2018 had not been awarded even as at 31 December 2018, due to delays in application of procurement process.

3.2 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
01.	The supervision works of Kirulapone sewer network was remained slow, due to late supply of spare parts deployment of inadequate human and physical resources for open cut pipe laying, manhole installation and micro tunneling shaft construction.	Possible delays in completion of the activities and intended facilities would not be reached to the beneficiaries.	The contractors' performance and resources allocation are also being closely monitored at present to increase the physical progress of work and to meet disbursement targets of the contract.	Prompt action should be taken to increase the crews and machineries
02	The contracts on Sewer network construction in Kirulapana-Narahenpitiya, trunk sewer from Polwatte to Bambalapitiya and repair of defective sewers and upsizing of under-capacity sewers in southern catchment planned to award in December 2018 had not been awarded even as at 30 June 2019.	The intended facilities would not be reached to the beneficiaries.	Pre procurement activities have already been completed and necessary actions are being taken to proceed with procurement activities of contracts.	Expedite action is required to be taken to award the contract.

3.3 Issues related to the Environmental Matters

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The Environment Officer of the Project had resigned with effect from 22 October 2018. As per the Loan Agreement, Environmental Performance of the Project should be monitored regularly and the reports thereon are required to be submitted to the Lending Agency semiannually.	The environmental assessments over the activities of the Project would not be carried out regularly.	Temporary arrangement had been made to assure the compliance with requirement of environment monitoring. Action had already been taken to fill the vacancy	This requirement is a must as the activities of the Project are environment sensitive. Therefore, action should be taken immediately to recruit an Environmental officer

3.4 Issues Related to Human Resources Management

Cadre Position	As at 31 December 2018			Impact	Response of the Management	Auditor's Recommendation
	Approved cadre	Actual Cadre	Vacant positions			
Construction Engineer	2	1	1	Smooth operations of the activities of the Project would be affected.	These positions are required for the construction supervision duties at work sites. Recruitment for some positions was delayed until award of the respective contracts	Prompt actions are required to be taken to deploy suitable persons.
Project Engineer	8	2	6			
Assistant Project Engineer	7	3	4			