

Greater Colombo Wastewater Management - 2019

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2019 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 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 reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, then Ministry of Local Government and Provincial Councils, presently Ministry of Public Service, Provincial Councils and Local Government is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objectives of the Project are to improve the urban environment and public health condition of 1.5 million urban and sub urban residents in Greater Colombo area through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. The activities of the Project are implemented under Greater Colombo Wastewater Management components namely (a) Upgrading Sewerage infrastructure (b) Strengthening Institutional and Operational Capacity in asset management, financial management, operational performance monitoring, environmental regulatory compliance, Customer Service and proper sanitation Services. (C) Project Management and Institutional Support.

As per the Loan Agreements, the estimated total cost of the Project was 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 Asian Development Bank. The balance amount of US\$ 15.87 million equivalent to 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 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 this 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.

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

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 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-Compliance	Impact	Response of the Management	Auditor's Recommendation
Section 6 (01) (a) of the Public Contract Act, No. 03 of 1987	The contractor accepts a contract at a cost of Rs. 5 million or more is required to be registered at the Register of Public Contract within 60 days after the signing of the contract. Further, 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.	Violation of Legal requirement.	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 the provision of public contract ACT.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Eventhough the Project had commenced on 09 April 2016 and scheduled to be completed by 31 December 2014, it was revealed that out of the allocation of US\$ 94.37 million equivalent to Rs.10,783.65 million made by the Lending Agency, only US\$ 70.88 million equivalent to Rs.10,417.30 million had been utilized as at 31 December 2019. The possibility of utilization of entire allocation for the activities of the Project during the rest of 12 months period is remained doubtful. The following observations are made thereon.

Components	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
Upgrading of sewerage infrastructure. a) Upgrading Wanathamulla Gravity Sewer network.	The Contract was terminated on 30 June 2017, due to contractor abandoned works at site without completion of the works. Action had not been taken to complete the balance works and only physical performance of 68	Additional cost for the contract and delays in completion of the scheduled activities	Wanathamulla Gravity sewer work is to be awarded to the on going sewer contractor through variation order.	The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism continuously.

per cent
 archived as at 31 December
 2019.

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| <p>b) Designing, construction, and Rehabilitation of 08 pumping stations and 3 pumping mains</p> | <p>A contract had been awarded to rehabilitate 8 pumping stations and 3 pumping mains in July 2015 in the city of Colombo and to be completed on 26 February 2018. However, respective activities of the contract had been shown slow progress ranging from 15 per cent to 96 per cent as at December 2019. Even though the period of the Project had been extended in 3 times up to 31 December 2020, the completion of the respective contract is remained doubtful at the end of the Loan closing date of 31 December 2020 using the remained allocation of around US\$ 25 million made under the Loan arrangements.</p> | <p>a) The activities and intended objectives of the Project will not be achieved during the extended period of the Project.</p> <p>b) The potential risk of the current loan funds will not be fully disbursed by before the Loan closing date of 31 December 2020.</p> | <p>The Project Management Unit and the Ministry, Currently having discussion with the Asian Development Bank on possible approach to find the remaining work beyond 31 December 2020.</p> | <p>Expedite action is required to be taken to complete the activities of the Project before expiration of the Project period.</p> |
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3.2 Idle Resources

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
<p>The laboratory items of the environment laboratory were remained unused for over 3 years.</p>	<p>a) Possibility of misappropriation</p> <p>b) Wastage of foreign funds</p>	<p>The inventory items are issued on the request made by the Municipal Council considering their testing needs.</p>	<p>Action need to be taken to investigate the reasons and identify the responsible officers.</p>

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, Project 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 has been made to assure the compliance with environment requirement of monitoring. Action has 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 without further delay.

3.5 Issues Related to Human Resources Management

Cadre Position -----	Carder Position as at 31 December 2019 -----			Impact -----	Response of the Management -----	Auditor's Recommendation -----
	<i>Ap- proved</i>	<i>Actual As at 31 Decem- ber 2019</i>	<i>No. of vacan- cies/ excess</i>			
01. Deputy Project Director (Engineering)	02	01	01	Smooth operations of the activities of the Project would be affected.	As stated in the schedule, no separate cadre for each Project. All activities of the Projects are carried out by the staff designated to the GCWWMIP and GCWMP.	Prompt actions are required to be taken to fill 12 vacancies in the key post.
02. Project Engineer (Procurement)	01	-	01			
03. Project Engineer	10	07	03			
04. Environment officer	01	-	01			
05. Project Secretary – I	02	01	01			
06. Assistant Project Engineer – II	07	05	02			
07. Management Assistant – II	05	03	02			
Construction Manager - I	<u>02</u>	<u>01</u>	<u>01</u>			
	<u>30</u>	<u>18</u>	<u>12</u>			