

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

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-03 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 provisions of the Loan Agreement No. 3348/3349 dated 11 August 2016 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 Programme**

According to the Loan Agreements, the Ministry of Local Government and Provincial Council, 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 Programme. The objectives of the Programme are to rehabilitate and expand wastewater treatment plant in south catchment area including laying 29.4 km Sewer network and constructing three pump stations and to strengthen Institutional Structure and capacity building of Service provider. 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\$ 92.67 million equivalent to Rs. 13,471.16 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 20.16 million equivalent to Rs. 2,930.60 million is expected to be financed by the Government of Sri Lanka. The Programme had commenced its activities on 03 November 2016 and scheduled to be completed by 31 December 2020.

### **1.3 Opinion**

The accompanying financial statements give a true and fair view of the financial position of the Programme 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 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.

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
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Section 6 (01) (a) of the Public	The contractor who accepts a contract at a	The action could not be raised	Action had been taken to inform the	The action is required to be taken to influence the

Contract Act, cost of Rs. 5 million or against the contractors to contractors to comply No. 03 of 1987 more is required to be registered at the Register of Public Contract and 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.

### 3. Physical Performance

#### 3.1 Physical Progress of the Activities of the Programme

For the purpose of improving the hygiene and sanitary condition of inland water in Grater Colombo area, the activities of the Programme had been implemented under 03 main components namely (a) rehabilitation and expansion of wastewater network in south catchment area of Colombo (b) construction of secondary wastewater treatment plant in south catchment area and, (C) Strengthening Institutional structure and capacity of service. According to the information received, out of the allocation of US\$ 92.67 million equivalent to 13,471.16 million made by Lending Agency, only US\$ 12.59 million equivalent to Rs.2,151.79 million had been utilized as at 31 December 2019, even after lapse of 3 years from the commencement of the activities of the Programme. However, the possibility of utilization of entire allocation for the activities of the Programme during the rest of the period of one year is remained doubtful. The physical progress on the activities implemented by the Programme are given below.

Components	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
a) Provision of new gravity sewers, Force stations for kirulapone catchment area	Eventhough the expected physical performance was 95%, Programme archived only 39%. Delay had occurred, due to the contractor's poor planning, the non-mobilization of resource and the delay in handing over the	Additional cost on the programme had incurred and intended objectives of the Programme will not be achieved during the period of the Programme.	Contractors poor performance continues, due to not achieving the required level of monthly bill value due to poor planning & non mobilization of required resources etc.	The Project Monitoring Unit should adopt proper monitoring and supervision mechanism to avoid additional cost and the delays in completion of the Programme.

Thalakotuwa  
garden land to the  
contractor.

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|---|---|--|--|---|
| b) Construction of Wellawatta Wastewater Treatment Plant  | Submission of cabinet paper is awaited for the cabinet approval for the awarding of the contract      | The activities and intended objectives of the Programme will not be achieved during the period of the Programme. | Cabinet paper had been submitted and the bid can be awarded in July 2020.  | Expediate action is required to be taken to awarding the contract.  |
| c) Provide Sewerage facilities to Kirula –Narahenpita Area  | Approval of bidding documents was delayed, due to the non – availability of lands.                    | The activities and intended objectives of the Programme will not be achieved during the period of the Programme. | Land was leased from the UDA for this purpose by the CMC and the process is almost completed. However, due to non-availability sufficient funds the process is temporarily halted. | Expediate action is required to be taken to awarding the contracts. |
| d) Repair of defective sewers, upsizing of under – capacity sewers in southern catchment and Implementation | Appointing a TEC and CAPC were delayed and revised documents to be approved.                          | The activities and intended objectives of the Programme will not be achieved during the period of the Programme. | The nature of the package, time to time changes of the Ministry port-folios and prevailed situations of the country has resulted for delaying in appointing of TEC and CAPC.       | Expediate action is required to be taken to awarding the contracts. |
| e) Constriction of 1200 mm concrete trunk sewer from Polwatta to Bambalapitiya                              | Appointing of a TEC and CAPC were delayed and CAPC approval for the bidding documents to be received. | The activities and intended objectives of the Programme will not be achieved during the period of the Programme. | This proposal has been cancelled   | The objectives of the Programme will not be achieved.               |

### 3.2 Contract Administration

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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<b><u>Construction of sewer network and 2 pumping stations at Kirulapana.</u></b>				
a)	Contract agreement was signed on 4 May 2017 and original date of completion is 14 May 2020. Two Lands are required for this contract to construct two pumping stations. However, Thalakotuwa Land had not been handed over to the contractor till 31 December 2019.	a) Delays in completion of the activities scheduled.	a) There is a slight affect to contract completion, due to delay in handing over of the Thalakotuwa garden PS site to the contractor.	a) Action should be taken to hand over the land immediately.
b)	However, the contractor had made a claim on the 14 October 2019 amount to Rs.257,171,849 to recover the damage, due to delays caused by the non- availability of site.	b) Additional cost on the Programme and compensations had to be incurred.	b) It cannot be considered that contractor fully idled, due to delays in handing over of the Thalakotuwa land. When considering the poor progress at Kalinga Mawatha PS which is almost similar to the Thalakotuwa PS construction. Delay damages from the contractor can be identified because the contractor is far behind the schedule. Net effect of compensations due to delay in handing over of Thalakotuwa Garden PS would not be the same as the claim amount.	b) The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism over the activities of the feasibility and bidding process to avoid the additional costs and delays in completion of the activities of the Programme.
c)	Project Management Unit had paid Rs.25,000,000 which is Rs.9,840,400 (65%) more than the chief valuer's valuation to purchase the land on 10 February 2020.	c) The intended facilities would not be reached to the beneficiaries.	c) This adjoining plots of land had to be purchased, due to	

change of the land of Kumbikele for the construction of pumping station which was selected at the designing stage. The direct purchase method was applied after taking all other options i.e. acquisition of land through Divisional Secretariat. But this process got delayed and ultimately directly purchased the land making justification to the approving authorities to avoid the more cost than Rs. 9,840,400 arising due to delay in handing over land to contractor.

**i. Construction of Wellawatta Waste water treatment plant.**

The contract on construction of waste water treatment plant scheduled to be awarded on 26 October 2018 and expected to complete on 4 February 2021. However, the contract had not been awarded up to 31 December 2019.

The intended facilities would not be reached to the beneficiaries.

Delay was mainly, due to change of marine disposal standard by CEA & issue of four addendums & answering numerous queries raised by the prospective bidders. Also, contract awarding was delayed due to the outbreak of COVID-19 Pandemic. However, cabinet paper has been submitted for the approval of the Cabinet of Ministers and planned to award the contract in July 2020.

Expediate action is required to be taken to award the contract without further delay.

**ii. Provide sewerage facilities to Kirula- Narahenpita Area**

The contracts on sewer network construction in kirula –

The intended facilities would not be reached to

Design changes have to make many times in

Expediate action is required to be taken

Narahenpita trunk sewer from polwatta to Bambalapitiya and repair of defective sewers and upsizing of under – capacity sewers in southern catchment and implementation contracts planned to award in December 2018. However, it had not been awarded upto 31 December 2019.

the beneficiaries.

Kirula - Narahenpita sewer network due to non-availability of lands for construction of two pumping stations. This caused delays in the preparation of bidding document, as survey and other investigations could not be done without finalizing the lands. Even after finalizing the land it took time to assess the possession of the land to a great extent to award the contract.

iii. **Construction of trunk sewer from polwatta to Bambalapitiya.**

Construction of 1200 mm concrete trunk had not been awarded up to 31 December 2019. The Programme is in planning and bidding stage still

The intended facilities would not be reached to the beneficiaries

This proposal has been cancelled, and the expected scope has been diverted in a different way mainly due to the uncertainty at the initial stage of the Proposed Marine city reclamation land project at Kollupitiya to Bambalapitiya, and finalized now.

The objectives of the Programme will not be achieved.

iv. **Rehabilitation and upgrading of sewers in southern catchment**

Due to delays in Design and preparation of bidding document the contract works had not been awarded up to 31 December 2019.

The intended facilities would not be reached to the beneficiaries.

After the change in the priority of the proposals, the scope was changed to match with the balance funding available under the EIB component of Tranche 3. Bid calling delayed due to changed priority & scope changes.

Expediate 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 Recommendations -----
The Environment Officer of the Programme had resigned with effect from 22 October 2018. As per the Loan Agreement Programme Environmental Performance of the Programme 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 Programme would not be carried out regularly.	Temporary arrangement has been made to assure the compliance with the requirement of environment monitoring. Action has already been taken to fill the vacancy.	This requirement is a must as the activities of the Programme are environment sensitive. Therefore, action should be taken immediately to recruit an Environmental Officer.

### 3.4 Issues Related to Human Resources Management

Cadre Position -----	No of Posts -----			Impact -----	Response of the Management -----	Auditor's Recommendations -----
	<i>Ap pro ved</i>	<i>Ac- tual As at 31 De- cem- ber 2019</i>	<i>No. of vacan- cies/ excess</i>			
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<b>01.</b> Deputy Project Director (Engineering)	02	01	01	Smooth operations of the Programme would be affected.	Number of attempts had been taken to recruit and retain the key positions. Applications were called for all the vacant positions in September 2019. Due to declaration of Presidential Election, recruitment process was temporally suspended and commenced after the election. However, due to prevailed Covid-19 pandemic situation, positions still remain vacant. Action had been taken to re-commence the process.	Prompt actions are required to be taken to fill the 12 vacancies with suitable staff.
<b>02.</b> Project Engineer (Procurement)	01	-	01			
<b>03.</b> Project Engineer	10	07	03			
<b>04.</b> Environment Officer	01	-	01			
<b>05.</b> Project Secretary – I	02	01	01			
<b>06.</b> Assistant Project Engineer – II	07	05	02			
<b>07.</b> Management Assistant – II	05	03	02			
<b>08.</b> Construction Manager - I	<u>02</u> <u>30</u>	<u>01</u> <u>18</u>	<u>01</u> <u>12</u>			



### 3.5 System and Controls

<b>Audit Issue</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendations</b> -----
The annual performance appraisal of the staff of the Programme as required by the paragraph 8.1 of the Circular No.10 of 26 December 2000 of the Department of Management Services had not been carried out.	Annual appraisal is needed to be carried out for motivational purposes of the staff.	Since the contract of all the positions are subjected to one-year period, employment contract is extended based on Performance Appraisal in complying with the Management Service Department Circulars	It is required to be complied with the circular instructions