

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project) -2020

The audit of the financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project) for the year ended 31 December 2020 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 3.4.2 (h) of the Credit Facility Agreement No. CLK 1008-01 P dated 29 September 2014 entered in to between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development. 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 Credit Facility Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to aims at extending water supply access and fostering the water system sustainability for Greater Colombo. As per the Credit Facility Agreement, the estimated total cost of the Project was US \$ 100 million equivalents to Rs.13,000 million and out of that, US \$ 70 million equivalents to Rs.9,100 million was agreed to be financed by the Agence Francaise De Development. The balance amount of US\$ 30 million equivalents to Rs.3,900 million is expected to be contributed by the Government of Sri Lanka. The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 31 December 2019. However, the date of completion of the activities of the Project had been extended up to 31 May 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 2020 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 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	Exchange gain amounting to Rs.133.63 million had been erroneously deducted from work-in-progress instead of being separately shown under the source of finance in the statement of financial position.	133.63	Proposed adjustment will be done from the F/Ss 2021.	Exchange gain should be shown separately under the source of finance in the statement of financial position
(b)	Loan interest amounting to Rs.83.53 million paid to the peoples Bank by National Water Supply and Drainage on behalf of the Project had not been brought to the financial statements of the year under review.	83.53	When the project's F/Ss are finalized, this amount is not updated in NWSDB ledgers. We have subsequently taken the transactions into the project accounts.	Action should be taken to identify and account all relevant Project expenses before preparation of the Project financial statements.
(c)	Value Added Tax aggregating to Rs.77.74 million had been set off against the proceeds from Government contribution in the year 2016 and 2017. However, it had not been brought to the Government contribution and separately shown as value added tax account in the financial statements as per the Accounting Instruction circular No.01-2021dated 12 February 2021 of NWSDB.	77.74	Proposed adjustment will be done from the F/Ss 2021.	Action should be taken to account under the government contribution and separately shown as Value Added Tax amounts in the financial statements

(c)	A sum of Rs.1.14 million of liquidation damages had been deducted from contractors up to 31 December 2020. However, it had been shown in the other liability account of the statement of financial position instead of being deducted from the relevant expense accounts.	1.14	Project has already requested the auditors' advise to make the correct entry in the books of accounts.	Deducted liquidation damages should be transferred to the relevant expense accounts to reduce up to the actual cost.
(d)	Although the project had paid Rs. 403 million to the Road Development Authority and the Provincial Road Development Authority for over laying works of 13,691 meters of roads, only 588 meters of roads had been over layered up to 31 December 2020, additional amount of Rs. 383 million for the work of over layered 13,103 meters of road had been over debited to working progress account.	382.63	NWSDB were unable to carry out the pipe laying under the ICB 03 Contract due to the mutual termination of the previous Contractor (Lowest bidder) and rewarding the contract to the second lowest bidder. ICB 03 Contract was re-commenced on 07.10.2020.	Actions should be taken to rectify the deficiency

3. Physical performance

3.1 Physical progress

The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 30 June 2019. However, the period of the Project had been extended up to 31 May 2022 due to the failure of the achievement of target within the scheduled Project period. According to the progress reports of the Project, the overall cumulative physical progress of the Project as at 31 December 2020 was 38.46 per cent. However, the Project had achieved only 15.36 percent of progress during the year under review was observed. Hence, component wise progress of the Project is as follows.

No	Activity	Units	Expected target	Target achieved as at 31 December 2020	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	Construction of Gothatuwa 15000 m ³ reservoir, Booster Pump Station at Moragasmulla with Supply and Laying of 5 Km, 1200mm DI pipes (ICB-03)	Percentage	8	3	Possibility to extend the both contract and Project period.	Agreed.	Need to be closely monitored the works regularly in order to complete within the time frame
(b)	Supply and Laying of 9 km Ductile Iron Pipes (1200mm Dia) and Accessories from Ambathale to Ellie House Reservoir (ICB-04)				Possibility to extend the contract period and adversely affect to the completion of Project.	Agreed. The delays were occurred due to, Contractor's less performance and Covid 19 Pandemic,	Need to be closely monitored the works regularly in order to complete within the revised time frame
	- Pipe laying	Metres	8,431	4,916			
	- Pressure testing	Metres	7,163	714			
	-Overall contract progress	percentage	88.98	53.20			
(c)	Reliability enhancement and energy saving of Ambathale production facilities for saving energy through installation of efficient pumps with appropriate capacities, reducing transmission losses through reduced friction and enhancement of other production facilities (ICB-05)	percentage	100	33.22	Delaying the achievement of reducing transmission losses and energy savings under the Project	Agreed. These delays were occurred due to Contractor's poor performance.	Need to be closely monitored the works regularly in order to complete within the revised time frame

(d) Design Review and Construction Supervision Consultancy Services (DRCSC)	The expected consultancy services could not be obtained to the Project within the scheduled contract period. As a result, the period of the consultancy contract had been extended twice up to 28 February 2022.	Extension of the consultancy period of the Project	Agreed. Consultancy Contract was extended due to the delays of Construction Contract	Remedial actions should be taken by the consultant to expedite the works and closely monitoring the contractors work regularly in order to complete the Project within revised time frame.
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3.2 Contract Administration

No	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	The civil construction work of the project had not been completed within the agreed time and the Design Review and Construction Supervision Consultancy Service are responsible for that delay but without considering that situation contract period of the consultant had been extended up to 22 October 2022	Some issues related to the delay were beyond the control of the Project. Fund suspension, non-availability of budgetary allocations and Covid 19 pandemic are few examples. PMU, Consultant & PIU have closely monitored that situation and extended the project period.	Consultant should be involved and remedial actions should be taken to prevent the issues related to the delays and need to closely monitor the contractors work.
(b)	The new contract for construction of ground reservoir and booster pump station with supply and laying had commenced its activities on 07 October 2020 and scheduled to be completed by 06 June 2022. As per the progress report of the contract, the overall physical progress had shown 3 percent against the targeted progress of 8 percent as at 31 December 2020 and it was remained at 16.58 percent as at 30 June 2021 was observed. Hence, the possibility of completing the contract within the contract period is in doubt.	Agreed. The delays were occurred due to following reasons; Contractor's performance is very poor Contractor was unable to open LC for the supply of imported material. Contract progress is severely affected due to Covid 19 pandemic.	Remedial actions should be taken to expedite the works and need to be closely monitored the contractor's work regularly.

- (c) As per the progress report of the reliability enhancement and energy saving of Ambathale production facilities for saving energy through installation of efficient pumps contract, the overall physical progress had shown slow progress of 33.22 percent as at 31 December 2020 against the expected physical progress of 100 percent. Even though the instructions were issued to the contractor by PMU to expedite the works, progress had remained at 37.01 percent up to 31 May 2021 was observed. Hence, the possibility of completion of the contract within scheduled contract period is in doubt.
- (d) The overall progress of the supply and laying of 9 Km DI pipes (1200 mm Dia) from Ambathale to Elli house (ICB-04) contract had shown slow progress of 53.20 percent as at 31 December 2020 against the targeted progress of 88.98 percent as at that date even after a lapse of 4 years and 5 months from the commencement date of the contract. Further, 2,450 metres of road section out of the pipe laid area under the contract had been handed over to the RDA after fully completion of the pipe laying works. Nevertheless, 360 metres of pipes which were laid in year 2018 had not been completed even up to 30 June 2021 due to delay of pipe Bends repair work and pressure testing work was observed.

ICB 05 Contract was expected to complete in 12 March 2021 and extension of time was granted up to 01 September 2021. The reasons mentioned in 4.1.3 are the reasons for the delay of ICB 05 Contract.

Remedial actions should be taken to expedite the works and need to be closely monitor the contractor's work regularly.

This Contract was terminated by the Contractor on 01 September 2018 due to non-payment of interim payments as AFD has temporarily suspend the credit facility. Also, Contract was recommenced on 25.11.2019 after 01 year and 03 months. Also, Progress of the Contract was severely affected by Covid 19 Pandemic. Also, reasons mentioned in 4.1.2 is also relevant for the delays of the Contract.

Remedial actions should be taken to expedite the works and need to be closely monitored the contractor's work regularly.

3.3 Observations made on site visits

No	Audit Issue	Responses of the Management	Auditor's Recommendations
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(a)	According to the physical audit test carried out in civil construction works regarding the staff accommodation building and central control buildings of the ICB-05 contract on 27 July 2021, civil works of the staff accommodation building and wiring works, installation of equipment, testing and commissioning of the system relating to the	The Contractor has been given necessary instructions to speed up the progress of proposed staff accommodation & Control building of ICB 05 Contract. Also, there are labour, equipment and material supply issues	Further instructions should be given to increase the labour force and speed up the works, as well as action should be taken to closely monitor the

central control building had not been completed even up to 27 July 2021. In addition to that, even piling works of the ground reservoir had not been completed up to the date of field inspection. However, lower labor force deployed to these sites was observed.

- (b) According to the Physical audit test carried out in the construction of Ground reservoir and booster pump station with supply and laying contract on 27 July 2021, it was observed that the construction works were not in accordance with the work plan. Further, it was observed that, there was no one engaged in any construction work at booster pump house at moragasmulla at the audited date.

due to Covid 19 pandemic situation.

Agreed. Contractor's performance is not up to the required level and Contractor has been given necessary instruction to catch up the delay. Reason for the non-availability of the workers at booster pump station is as the labours had been engaged with the reinforcement bar bending work at Contractor's yard.

Contractor's work regularly.

Instructions should be given to deploy the adequate labour force to sites and speed up the works, as well as action should be taken to closely monitor the contractor works regularly.

3.4 Matters in Contentious Nature

No	Audit Issue	Responses of the Management	Auditor's Recommendations
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| (a) | To reduce the high energy cost of the Ambathale water treatment plant, the NWSDB had planned to rehabilitate and replacing pumps with low efficiencies and constructing of ground reservoir and laying of new larger Diameter transmission mains to reduce friction losses etc. under the Project by 31 December 2019. Nevertheless, no any contracts under the Project had been completed even up to 31 December 2020. As a result, by end of the year 2020 monthly average electricity charges of the Water Treatment plant at Ambathale had remained Rs.67.52 million and high electricity charges as above could not be reduced as planned. | Agreed. | Maximum effort should be taken to complete the Project within revised time frame. |
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(b) Even though, the Physical progress of the contract had shown slow progress of 53.2 percent as at 31 December 2020 even after a lapse of 53 months from the commencement date of the activities of the contract, claims aggregating to Rs.1,115.94 million had been requested and Rs.25.63 million out of that had been claimed by contractor as at 31 December 2020 under the loss of profit and delay payment for the period of suspension and additional charges for the period of covid-19 etc.

Most of the Contractor's claims were occurred due to the payments delays and the Covid 19 pandemic.

Remedial actions should be taken to prevent the disputes, conflicts and delay payments etc. and need to be closely monitored the works regularly in order to complete within the scheduled time frame.

3.5 Underutilized Resources

Audit Issue

Even though the US\$ 70 million equivalent to Rs.9,100 million agreed to be financed by the Lending Agency, only a sum of US\$ 16.68 million equivalent to Rs.2,792 million representing 24 percent of the funds had been utilized as at 31 December 2020 even after lapse of 6 years and 3 months from the commencement date of the activities of the Project. As a result, commitment charges aggregating US\$ 1,93 million equivalent to Rs.308.27 million had been paid by the Government on behalf of the undisbursed balance up to 31 December 2020.

Responses of the Management

All the reasons which have discussed in Clause 4.3 & Clause 4.4, caused for the disbursement delays.

Auditor's Recommendations

Maximum effort should be taken to complete the all activities of the Project within extended time frame.

3.6 System and Controls

No Audit Issue

(a) Even though value of Rs.158.70 million represented 45 Nos of variation orders had been approved by the variation committees in respect of the ICB- 03 contract, value of Rs.38.64 million had been over paid by the Project without obtaining the approvals from the variation committees up to 31 December 2020. However, that

Management Responses

All the Payments Certified by the Project without obtaining the approvals from the variation committees for work carried out by the Contractor are based on the project evaluation for such variation and approvals

Auditor's Recommendations

A effective mechanism should be established for price negotiation and obtaining the variation committee approvals without delaying long period.

amount had been increased up to Rs.77.67 million by 31 May 2021.

have been obtained from the GM(NWSDB) until the rate and prices are agreed with Contractor determined by the Engineer.

(b) Mobilization advance amounting to Rs.514.79 million equivalents to US\$ 2.87 million had been paid to the ICB-5 contractor in year 2018. Even though the scheduled completion date of the contract was 31 December 2020, no any amount of mobilization advance had been recovered by the project as at 31 December 2020 due to the low progress of the contract.

Advance payment will automatically be recovered from each payment certificate. According to the last IPC (IPC 05) issued for the month of March 2021, USD 128,958.60 has been recovered from the Advance Payment.

Constructions should be carried out and completed in accordance with the scheduled work plan without time extensions.

(c) Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.

It is beyond the control of the project.

Actions should be taken to implement an internal audit