

## **Kandy City Wastewater Management Project - 2021**

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The audit of the financial statements of the Kandy City Wastewater Management Project for the year ended 31 December 2021 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(6) of Article III of the Loan Agreement No. SL- P 99 dated on 26 March 2010 entered between Democratic Socialist Republic of Sri Lanka and the Japan Bank of International Cooperation presently known as Japan International Cooperation Agency. My comment and observation which I consider should be report to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan 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 is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment, and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas, and thereby enhance the standard of living, health, and well-being of the people in the area. The estimated total cost of the Project is amounted to Japanese Yen 17,278 million which equivalent to Rs.21,982 million and out of that Japanese Yen 14,087 million which equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency and the balance sum of Japanese yen 3,191 million which equivalent to Rs. 4,060 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2022.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the table 02 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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**

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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**

**Accounting Deficiency**

**Responses of the Management**

**Auditor's Recommendation**

Parity adjustment amounting to Rs.2,122.25 million made by the General Treasury up to 31 December 2021 had not been brought to the financial statements of the project.

Action will be taken to correct by next year financial statements

Action should be taken to account the parity adjustment.

**3. Comments on Financial Statements**

**3.1 Non Compliance with Laws, Rules and Regulations**

**Audit Issue**

**Responses of the Management**

**Auditor's Recommendation**

As per the Paragraph 14.7 of the fidic guideline, the Project should settle bill payment within 56 days after received interim payment certificate. However, due to delay of settle the contract bill payment, the Project had paid finance charges amounting to Rs. 4.5 million during the year under review.

Funds requested for IPC payments Rs. Mn. 5,763/- had not been received from Ministry of Water Supply as presented in the Budget Action Plan 2019. Therefore the payment of IPC 18, 19 under PKG 02 and IPC 20,21,22,23 under PKG 03 had been delayed.

As an implementing agency and an executing agency NWSDB and Ministry of Water Supply should take action to settle the IPC bill without delay.

#### 4. Physical Performance

##### 4.1 Physical Progress of the activities of the Project

Activities	Physical Progress as at 31 December 2021		Responses of the Management	Auditor's Recommendation
	Expected Performance	Actual Performance		
(a) Design and Construction of				
-Trunk sewer network				
-open cut	6.23km	6.23km	- Some unforeseeable major delays (attributable to the employer) impacted the completion such as,	Action should be taken to expedite the project activities.
-Trenchless	2.87km	2.68km		
-Branch sewer network			- Main Pumping Station relocation due to pipe laying at deep excavation issue.	
-open cut	71.1km	73.6km		
-Trenchless	5.7km	1.0km	- Medaela & Gridcity incorporation of national projects.	
-Property sewer network				
- open cut	145.2km	156.7km	- Public Protest (social issue) in Sri Dalada Veediya Pipe Laying.	
- Trenchless	11.24km	2km		
-Force main			- COVID -19 pandemic.	
- open cut	3.18km	3.1km		
- Trenchless	173m	17m	- Unforeseeable material shortage and economic situation of the country and observed contractors delays in parallel.	
-Manhole pump station	09 Nos	05 Nos. Functioning 04 MPS in progress		

(b) Construction of property connection			Contractors major delays were observed as notified. However, delays attributable to the Employer were also occurred such as ,	Action should be taken to expedite the project activities.
-Construction	6,191	5,854		
-Final connection	3,297	2,724	<ul style="list-style-type: none"> <li>- Works impeded due to police curfew due to Digana incident</li> <li>- Covid 19 pandemic (Travel restriction, contractors site office staff affected from Covid 19 and the site office closed for 14 days quarantine, Travel restriction and lockdown)</li> </ul>	

## 4.2 Contract Administration

### Audit Issue

- (a) Although the Project had not completed, the loan recovery was set in 2020. As per the statements of the External Resources Department, a sum of Rs. 1,644.78 million had been paid as loan recovery due to delays in awarding contract on time and poor performance of the contractors.
- (b) Due to poor Project management and non withdrawal of loan an agreed time frame, the Lending Agency had been charged commitment fees amounting to Rs.173.48 million up to 31 December 2021.

### Responses of the Management

- Delays are beyond the control of employer and taken timely action to extend Loan disbursement period to make progress and final payments.
- As the completion of the contract packages were delayed, it is necessitated to extend loan disbursement period.

### Auditor's Recommendation

- As an implementing agency NWSDB should take action to expedite the project performance without delay.
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(c) It was observed that the design of the work under the contract of the design and construction of trunk sewer , branch sewer and man hole pump station had not been evaluated properly by the Project. As a result, the contractor had submitted variation order at a cost of Rs. 1,750 million and the Project had paid Rs.52.12 million from that as a additional design cost during the year under review.

As indicated in 4.1 (a) construction suffered delays and additional costs. However contractor claimed around Rs. 5,056 million and with careful evaluation it was reduced to Rs. 1,750 million.

The project should evaluate design of the work properly in initial stage.

### 4.3 Extraneous Activities

#### Audit Issue

The Project had employed existing Project staff and incurred Rs.13.02 million under the contract of construction property connection for the construction of a waste water treatment plant in Peradeniya University which is not include in the Project scope.

#### Responses of the Management

Since the University of Peradeniya project is to be connected to KCWMP treatment system and considering the project experience, this project was allowed to manage by same project team to better manage the technical and commercial interests.

#### Auditor's Recommendation

Action should be taken to make payment within the project scope.

### 4.4 Matters in contentious nature

#### Audit Issue

The Project had incurred Rs. 2.6 million for opening ceromany of Kandy waste water treatment Plant which had been held in online during the year under review.

#### Responses of the Management

This was direct plus virtual and necessitated to inform the public of Government of Sri Lanka.

#### Auditor's Recommendation

The project should manage the expenditure effectively, efficiency and economically.

#### 4.5 System and Controls

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) 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.	The head office will deal with the appointment of an internal auditor and the relevant documents for the year 2019 have been requested by the Internal Auditors and provided the relevant documents to Internal Audit Division.	Action should be taken to implement an internal Audit
(b) Fixed Asset of the Project during the year under review was not subject to the Physical Verification as required by the Financial Regulation 756 .	Management comment not received.	Action should be taken to implement physical verification of fixed assets.

#### 4.6 Matters pointed out in previous Audit Reports which remained unresolved.

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The construction works of pump house in Deiyannewela had been completed and the construction of pump house near Mahamaya primary school is in progress. However, the ownership of the lands had not been transferred to the National Water Supply and Drainage Board.	Management comment not received.	The NWSDB should be taken immediate actions to get transfer the ownership of the lands without further delay.