

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project) - 2021

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 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 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 equivalent 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 two times up to 30 June 2023.

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 2021 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 scepticism 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 Deficiency	Amount Rs. Mn	Response of the Management	Auditor's Recommendations
(a)	As per the reports of the Department of External Resources and Department of Treasury Operations, exchange rate difference of the year 2019 amounting to Rs. 7.99 million equivalents to USD 44,071.23 had been corrected during the year under review. However, it had not been brought to the financial statements. As a result, loan balance and work in progress of the Project had been understated by a similar amount.	7.99	Proposed adjustment will be done in the year 2022 Financial Statements	Action should be taken to rectify the error and taken to action avoid such errors in future.
(b)	Computers and Office Furniture had been purchased at a cost of Rs. 6.45 million under the consultancy contract and those assets are used by consultancy and Project staff. However, it had been accounted under the consultancy expenses instead of shown as fixed assets. Further, computers and office furniture supplied by the contractors for the Project implementation unit (PIU) had been accounted under the work in progress instead of being shown as fixed assets.	6.45	Proposed adjustment will be done in the year 2022 Financial statements.	Action should be taken to rectify the error and taken to action avoid such errors in future.

2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Law Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
Section 4.2.2 of the Procurement Guideline	Project had taken 45 weeks (313 days) for signing the contract agreement for construction of two storied office quarters under the ICB-3 contract contrary to the Section 4.2.2 of the Procurement Guidelines.	The scope of the contract of construction of quarters has been changed with the shifting it to Ambatale Water Treatment Plant Premises. According to this change negotiation were carried out with the Contractor and Amendment 1 was prepared including those changes. Accordingly, Awarding the letter of award was delayed due to these reasons.	Action should be taken to avoid such procurement delays in future.

3. Physical Performance

3.1 Physical Progress

The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 31 December 2019. However, the period of the Project had been extended two times up to 30 June 2023, due to the failure of the achievement of target within the scheduled Project period. As per the progress report of the Project, the overall physical and financial progress of the Project as at 31 December 2021 were 56.83 percent and 43.89 percent respectively even after a lapse of 07 years and 03 months from the commencement date of the activities of the Project. The following observations are made.

No	Activities	as at 31 December 2021		Audit Issues	Responses of the Management	Auditor's Recommendations
		Expected targets (%)	Target achieved (%)			
(a)	Construction of Gothatuwa 15000 m3 reservoir, Booster Pump Station at Moragasmulla with Supply and Laying of 5 Km, 1200mm DI pipes (ICB-03)	59.90	31.03	Possibility of extending the contract period and it may adversely affect the Project completion.	The ICB 03 Contract was delayed due to various reasons such as Mutual termination of initial Contract, the Health Ministry refused to give the land for the reservoir construction and there after shifted to Ambatale Water Treatment Plant Premises, import restrictions on material and effect of Covid 19 pandemic.	Action should be taken to manage the unexpected situations and expedite the works. Further, need to be closely monitored contractors works regularly in order to complete within the time frame.
(b)	Supply and Laying of 9 km Duc tile Iron Pipes (1200mm Dia) and Accessories from Ambathale to Ellie House Reservoir (ICB-04)	100	82.98	-Do-	The ICB 04 Contract was delayed, due to difficulties face during the construction period and Covid 19 pandemic situation.	-Do-

(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)	100	46.88	Delays in the achievement of reducing transmission losses and energy savings as planned can adversely affect the completion of the Project.	The ICB 05 Contract was delayed due to delay in Procurement process, change of design arising from unforeseen ground conditions, Delay in appointment of sub-contractors.	-Do-
(d)	Design Review and Construction Supervision Consultancy Services (DRCSC)	97.64	95.58	Eventhough the consultancy period had been fully completed by 31 December 2020, international and local key expert have not been mobilized, due to inefficiency of awarding contracts and contractor's poor performance. As a result, period of the consultancy had been extended twice up to 28 February 2022.	The DRCSC contract needed to be extended with all other contract packages have been extended, due to the reasons stated in Item 4.1.1, 4.1.2 and 4.1.3.	Consultant should take necessary actions to expedite and closely monitored the activities of the Project in order to complete within the time frame.

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The period of the Design Review and Construction Supervision Consultancy Service had been extended two times up to 28 February 2022, due to international and local key experts had not been mobilized, delays in awarding of contracts and poor performance of the contractors. As a result, the physical progress of the contract was 95.58 percent out of the expected target of 97.64 percent as at 31 December 2021.	The consultancy service had extended from the saving of non-mobilizing the key experts previously.	Consultant should take necessary actions to expedite and closely monitored the activities of the Project in order to complete within the time frame.
(b)	As per the progress report of the project, ICB-04 contract had achieved only 82.98 percent of overall physical progress as at 31 December 2021. Nevertheless, contractor has failed to complete the contract even up to 30 June 2022. However, while having a slow progress of construction works and spent significant period for the constructions as above, a sum of Rs. 83.46 million which equivalent to 4 percent of the contract value had been paid as financial charges for the delay payments and as idling charges for temporary suspension and also the Project had incurred 11.75 million as preliminary expenses during the extension period between February 2021 and month of May 2022.	Due to the reasons for delays given under 4.1.2 contractor had claimed entitled financial charges for delay payments and delay payments according to the Condition of Contract Clause 14.8.	Necessary actions should be taken to manage the unforeseen situations and closely monitored the contractors work in order to complete within the time frame.
(c)	The contract for the construction of Gothatuwa 15,000m ³ reservoir and booster pump station with supply and laying of 05 km DI pipes (ICB-03) was scheduled to be completed by 6 June 2022. Subsequently, it had been extended up to 30 September 2022. According to the progress report of the contract, the overall physical progress as at 31 December 2021 was 31.03 percent and it had remained at 53.55	The achieving balance 46.45% of progress within next 4 months is practically not possible according the project determination tool. However due to the country situation during year 2021 and up to 31 May 2022, there was no favourable situation available in the country to perform the Contractor to obtain the rate of progress as per the submitted work	Necessary actions should be taken to expedite the works and closely monitored the contractors work in order to complete within the time frame.

percent as at 31 May 2022. As a result, the completion of balance 46.45 percent of works within next 04 months of the contract period is in doubt to the audit.

- (d) Contract for reliability enhancement and energy saving of Ambathale production facilities for saving energy through installation of efficient pumps with appropriate capacities (ICB 05) was planned to be completed by December 2020. Subsequently, the contract period had been extended two times up to 26 January 2022. Eventhough this contract represents 45.60 percent of weightage from the whole Project activities, the overall physical progress had shown slow progress of 46.88 percent as at 31 December 2021. Further, it was observed that six categories of items under supply of plant and spare parts had not been purchased even up to 30 June 2022. Therefore, the possibility of completion of the contract within extended Project period is in doubt. Further, the contractor had requested further time extension up to end of the year 2022. However, final decision had not been taken even up to 30 June 2022 by Donor Agency.
- The employer is not waiting for the granting of EOT until get clearance from AFD and EOT approval will be granted by the Employer by determination of acceptable evidence to be substantiate by the Contractor. If not LD will be applicable as per the condition of the Contract.

3.3 Underutilized Resources

Audit Issue

According to the credit facility agreement of the Project, out of the total allocation of US\$ 70 million equivalent to Rs.9,100 million made by the Lending Agency, only a sum of US\$ 28.14 million equivalent to Rs. 5,018.19 million representing 40.02 percent of the allocation had been utilized as at 31 December 2021 after lapse of 7 years and 03 months from the commencement date of the activities of the Project. As a result, commitment charges aggregating US\$ 2.19 million equivalent to Rs. 358.71 million had been paid by the Government on the undisbursed balance of the loan up to 31 December 2021.

Response of the Management

The project was unable to disburse the funds to the contractors as per the planned forecast. Therefore, the government had to pay the commitment charges according to the conditions of loan agreement.

Auditor's Recommendation

Maximum effort should be taken to complete within the revised Project period.

3.4 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
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(a)	Physical verification of fixed assets had not been carried out in terms of the Financial Regulation (FR) 756.	Physical verification of fixed assets will be carried out during the year 2022	Action should be taken to implement the physical verification of fixed assets
(b)	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.	Internal Audit Division of NWS&DB had not issued audit report for financial year 2021 regarding the transactions of the project	Action should be taken to implement an internal audit