

## **Phase 2 Stage 1 Ratmalana/Moratuwa Wastewater Disposal Project - 2022**

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The audit of financial statements of the Phase 2 Stage 1 Ratmalana/Moratuwa Wastewater Disposal Project for the year ended 31 December 2022 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 3.4.3.(j) of the Credit Facility Agreement No. CLK 1023 – 01 L dated 18 February 2019 entered into 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, the Ministry of Water Supply, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and National Water Supply and Drainage Board is the Implementing Agency of the Project.

The objectives of the Project are to improving access to the sewerage service to the residents of Rathmalana (95,000 inhabitants) and Moratuwa (167,000 inhabitants). The activities of the Project are implemented under 04 components namely Expansion of sewer collection network, Construction of new pump stations and modifications to existing pump station and treatment plant, Internal property connection, Construction and supervision consultancy.

As per the Credit Facility Agreement, the estimated total cost of the Project was Euro 105.5 million equivalent to Rs 21,682.36 million and out of that Euro 75 million equivalent to Rs. 15,414 million was agreed to be financed by the Agence Francaise de Development. The balance amount of Rs 6,268.36 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on July 2016 and scheduled to be completed by December 2024.

### **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 2022 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 Standard 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 Non Compliance with Laws, Rules and Regulations

<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Section 9.3 of the Management Circular No.01/2019.	As per the Circular steering committee should meet at least once in two months, only one meeting was held for the period from 2019 to 2022.	Meetings were not conducted due to corona pandemic period. Although NSC Meetings were not conducted monthly progress review meetings were held chaired by the Secretary to the Ministry.	should be complied with Circular instructions

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Due to the postponement of loan repayments by the Sri Lankan government Officials Committee on Re-strategizing and Acceleration of Mega Projects (RAMP) had recommended a temporary halt the project works until further notice. Accordingly an alternative program was implemented and progress of that programme as follows

No	Project component	Audit Issue	Management Response	Auditor's Recommendation
(a)	Expansion of sewer collection network.	Construction contract for this component was signed on December 2021 and Rs 1,427 million had been paid as mobilization advance. However, the scheduled activities were not commenced due to the suspension of loan issuance and a revision programme was prepared to cover the advance amount paid to the contractor by selecting nine activities in connection with the currently operating pumping stations. Further, the contractor had retained the advance amount of Rs.1, 427 million for a period of 12 months without having expected progress.	Construction works were commenced on 12.05.2022 after completion of pre-constructions activities such as Mobilization, Insurances and performance bonds. Construction works slow progress is mainly due to economic crisis situations	Management should closely supervise the works of the contractor and advance should be recovered immediately by completing revised works.
(b)	Construction of new pump stations and modifications to existing pump station and treatment plant	Although, the all drawdown should be completed on or before 31 December 2024, the contract had not been awarded even up to 28 February 2023 and only the procurement process, evaluation of tender applications had been completed as at 31 December 2022.	TEC and SCAPC were appointed in Jan. 2022. TEC report submitted to the Ministry in April 2022. Since AFD disbursements were temporarily suspended due to withheld of loan repayment by the Government with effect from 29th July 2022, SCAPC did not approve the tender document for calling.	Action should be taken to continue the expected project activities by getting financial support from the Treasury
(c)	Construction and supervision consultancy	Contract was not awarded even as at the date of 15 February 2023 due to the delay in procurement process.	Bid evaluation in progress. Some of the CPCC members to be reappointed due to change of the Secretary to	Action should be taken to expedite the procurement process and the changes of

the Ministry after new the ministry officials  
 Minister was appointed and should not be a  
 retirement of officers. reason for  
 significant delay in  
 the procurement  
 process.

- (d) Land Acquisition Although land acquisition activities should be completed at the initial stage of the project, six plots of land which were required for the construction of wastewater pumping stations had not been acquired even by the date of 31 December 2022.
- Land acquisition works for 07 pump stations were commenced by PMU since July 2016 and acquisition process is very slow due to inherent delays in this process such as objections from public and land owners, delays in obtaining Survey plans, frequent changes of Ministers and names of Ministries, prior reservations of lands for development projects, etc.
- Action should be taken to expedite the land acquisition process.

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although the Ministerial procurement committee had recommended to give the contract of assess the environmental impact for the expansion of the drainage cover network to the University of Moratuwa in accordance with the National Procurement Agency's consultancy service guidelines, However the project had awarded the contract at Rs.8 million to a private limited company without adhering the above recommendation.	The Letter of Invitation was sent to the Department of Civil Engineering, University of Moratuwa on 16th November 2017 but no response was received before closing of Bids on 5th December 2017. According to the List of Registered Consulting Organizations for technical Guidance/Preparation of EIARs published by the Central Environmental Authority (CEA), the name of Uni-Consultancy Services is also given under the University of Moratuwa	Need to be adhere the procurement guideline.
(b)	Although the Project office was established in 2016 and about 20 officers had being worked scince 2016, only one contract was awarded and the contracts of	From 2016 to 2021 only pre-contract activities were conducted and construction works were commenced in 2022. Therefore, actual physical progress can only be provided from 2022 after	Action should be taken to evaluate the performance of Project officers and established new performance

other components had not been awarded even by the end of the year under review. Rs 227 million had been spent to maintain the project office since 2016 and actions had not been taken regarding the poor performance of officers.

contractor has been mobilized. Further in order to conduct a Detailed Engineering Design for this kind of large scale Sewerage project under consultant would incur high expenditure for both PMU staff and consultants. As a result of having a PMU staff with high performance, the project could achieve this target without guidance from highly paid technical experts.

indicators for proper evaluation.

### 3.3 Underutilized Resources

#### **Audit Issue**

#### **Response of the Management**

#### **Auditor's Recommendation**

The general treasury has paid Rs. 248 million as commitment charges on the undisbursed loan balance from 2019 to 2022 due to the late utilization of fund.

The Government is committed make commitment fees to lender according to the loan agreement. We have forwarded the amounts of Commitment fee, Interest fee and appraisal fee to the ERD in order to clarify the accuracy, since we do not receive any records in this regard.

Action should be taken to use the fund as the scheduled disbursement plan and minimized the commitment charges.