

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project) - 2023**

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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 2023 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 and Estate Infrastructure Development is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The main objective of this Project is to enhance the efficiency and reliability of the water supply system to Colombo and its suburbs by upgrading and replacing the deteriorated pipe network and equipment. 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 three times up to 30 June 2024.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme -Project 1 as at 31 December 2023 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 Accounting Deficiencies

<b>Accounting Deficiencies / Audit Issue</b>	<b>Amount Rs. million</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
Total amount of Rs.3.36 million valued Computers, Office Furniture and office equipment which were purchased for the use of Project office had been accounted under the work in progress instead of shown as PPE.	3.36	The estimated value of Rs. 3.36mn will be recorded under PPE in the Financial Statements of the year 2024.	Assets should be accounted under the correct category

### 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 03 times up to 30 June 2024 due to the failure of the achievement of target within the scheduled Project period. As per the progress report, the overall physical and financial progress of the project as at 31 December 2023 were 81 percent and 70.75 percent respectively even after a lapse of 09 years and 3 months from the commencement date of the activities of the Project. However, it was observed that the Project had achieved only 10.87 percent of progress in physically during the year under review and components wise progress of the Project are as follows.

No.	Activity	Expected targets as at 31 December 2023 (%)	Target achieved as at 31 December 2023 (%)	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	i. Construction of Gothatuwa 15000 m <sup>3</sup> reservoir, Booster Pump Station at Moragasmulla with Supply and Laying of 5 Km, 1200mm DI pipes	100	86.04	Possibility of extending the contract period and risk of complete the project as scheduled.	Contract was delayed due to mutual termination of initial Contract and re-awarded the 2nd lowest contractor.	Management should liable to not doing the feasibility study before start the project and not taking prior approval from Health Ministry.
(b)	Reliability enhancement and energy saving of Ambatale 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	82.90	65.03	Risk to the complete the Project before the due date.	Contract was delayed due to the Procurement was delayed, change of design, COVID 19 impact, financial crisis, material scarcity.	Remedial action should be taken to complete the balance works with expedite plan to achieve the expected objective.

### 3.2 Contract Administration

No.	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	<p>Contract for Design Review and Construction Supervision Consultancy Service of the Project was awarded at a cost of Rs.461 million to a private consultancy service company on 01 December 2015 to complete within 36 months. However, The Consultancy contract of ICB 05 and ICB 03 had not been completed and long delays, inefficiency and poor performance of the contractors were shown throughout the project period. As a result, period of the consultancy had to be extended to 6 times up to 30 June 2024, Further Sum of Rs. 21 million had been spent for the inputs of the consultancy contract during the 6th extension. Hence, overall cost of consultancy service of the project has been increased by Rs.159 million more than estimated consultancy cost and consultancy contract was still in progress even at the date of audit 10 July 2024 without having a formal approval</p>	<p>The Contract package delays given in clause 4.1.1 and 4.1.2 cause to delay the mobilize the consultant key experts to avoid the payments to key experts. However, with the progress of contract packages the consultancy service had extended from the saving of non-mobilizing the key experts previously. Since ICB 03 &amp; and ICB 05 are still ongoing, period of the consultancy service is required to be extended. Obtaining formal approval was delayed since the Cabinet approval was received on 25th July 2024.</p>	<p>Consultant should be closely supervised the activities of the project to complete within scheduled period and to reduce further losses</p>
(b)	<p>The ICB 04 contract was awarded for 672 days from 01 July 2016 which the commencement date of the activities and subsequently it had been extended up to 30 June 2024. Accordingly, the contractor had taken 2,428 days instead of 903 days by 30 June 2024 (Excluding the suspension period). As per the progress report of the project, only 99 percent of overall physical progress had been achieved as at 31 December 2023. Nevertheless, Pipe flushing and disinfection works had not been carried out even up to 10 July 2024 because Ellie house pump station is still under the pump installation stage and having a problem with getting required amount of water for disinfection.</p>	<p>The disinfection and cleaning process has been delayed due to ongoing construction of the Elli House Pump Station and difficulties in obtaining the required amount of water for disinfection. To address this issue, a newly laid pipeline has been connected, and the completion of the Elli House Pump Station installation is anticipated by mid-August. Once this installation is completed, the disinfection process can be preceded without further delays.</p>	<p>Action should be taken to complete the Pump installation and commission pipe line without further delay.</p>

- (c) The contract for the construction of Gothatuwa 15,000m<sup>3</sup> reservoirs and booster pump station with supply and laying of 05 km DI pipes (ICB 03) was scheduled to be completed by 06 June 2023. Subsequently, it had been extended four times up to 07 May 2024. The overall physical and financial progress was remained at 86 percent and 83 percent respectively as at 31 December 2023 and it was 93 percent and 85 percent respectively even as at 30 June 2024. Further the consultant of the project had mentioned in his progress reports that the poor performance of ICB 3 contractor had directly impacted to long delay in completing the project.
- The primary factors contributing to the delays are outlined in Item 4.1.1. and weak soil conditions, a large number of underground utilities, and additional work resulting from design changes have been significant issues impacting the latest Extension of Time (EOT) request.
- Remedial action should be taken to complete the ICB 03 contract package as planned without further delay and having losses to the country.
- (d) Contract for reliability enhancement and energy saving of Ambathale production facilities for saving energy through installation of efficient pumps with appropriate capacities (IC 05) was planned to be completed by December 2020. Subsequently, the contract period had been extended four times up to 30 April 2024. Even though this contract represents 45.60 percent of weightage from the whole Project activities, the overall physical and financial progress had shown as 65 percent and 47 percent respectively as at 31 December 2023 and it was 75 percent and 48 percent respectively even as at 30 June 2024.
- The Contractor has requested an additional Extension of Time due to these delays. Cabinet approval for the project extension has been granted until December 31, 2024. The project staff is actively supervising and monitoring the Contractor's progress to ensure adherence to the revised schedule.
- Project management should take actions to stop the project inefficiencies and unnecessary delays .

### 3.3 Matters in Contentious Nature

No	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	i. NWSDB had been decided to replace selected number of pumps which were old and with ineffective energy productivity with a target of achieving higher energy efficiencies by construct ground reservoirs and replacing the deteriorated pipe network with larger diameter to reduce friction losses to achieve above objective it was planned to replace 17 No of	The initial delays in the project were caused by issues related to land, mutual terminations, and financial problems. Subsequently, the pandemic crisis from late 2019 to the end of 2021, coupled with the country's economic downturn, prevented the Contractor from adhering to the approved work program.	An investigation should be conduct to find out the reason for not done the feasibility study before start the project failed to select a suitable contractor. Management has no excuses for well controllable situations. Therefor special attention needs to pay to complete

new pumps. However, 13 out of above 17 had been purchased and 12 was installed. Also, procurement of 4 Nos pumps for the Gothatuwa high lift pump house had not been finalized even up to date of audit on 10 July 2024. Further 1 flow meter out of 16, 3 surge vessels out of 11 and SCADA system had only been installed by that date.

Pump installation faced delays due to challenges in managing interruptions. Given that the Ambatale Water Treatment Plant is both operational and outdated and some practical difficulties arose. These issues were beyond the control of both the Contractor and the Employer.

the whole project before ending year 2024.

ii. Even though project activities had been commenced from 2016 and initial completion date was 31 December 2019 and no of three times extension has given no any main contracts under the project had been fully completed even up to 31 July 2024. However, the project is being dragged by the PMU incurring large amount of money as administration, consultancy, maintenance etc. and the Government expenditure such as loan installment (234 Mn), Commitment charges (390Mn), Interest (621Mn) were incurred without having any benefits to the economy on the other hand without having achieved the expected objective of reducing high energy consumption the NWSDBs cost for water supply is increased as well. Further, contractors poor planning, poor performance and also poor contract supervision by project management had adversely affected to achieve the objectives of the Project.

Despite the challenges outlined in sections 4.1.1 and 4.1.2, which have contributed to the project delay, the Project Management Unit (PMU) has not intentionally caused any delay. Additionally, the delay cannot be attributed to poor planning, performance, or supervision by the contractor.

Action should be taken to manage the unexpected situations and expedite the works to avoid further financial burden to the country.

Nevertheless, the current progress of the project has resulted in notable positive outcomes. At the Ambatale Water Treatment Plant, observed energy savings amount to Rs. 18.5 million per month, representing approximately 11% of the total electricity cost. These savings are expected to continue and potentially increase further upon the project's completion.

(b) The main contractor of ICB 05 had requested an amount of USD 5,691,179.76 of price escalation claim by the letter No ZHSZJH/2857/05/23 dated 24 May

We have received a claim from the ICB 05 Contractor for price escalation. The Contractor has requested an adjustment due to significant increases in the cost of

Contractor's payment should done in accordance with conditions in the contract agreement and with a recommendation of

2023. However it was observe in the audit that the Management is not responsible to pay such price escalation claim as it is a design and build nature contract and no any other provisions to pay price escalation as per the agreement.

inputs required for their work. The Contractor argues that these price increases are unforeseeable and beyond their control, and therefore were not accounted for at the time of signing the agreement. The claim is currently under evaluation. We are carefully reviewing all relevant details and considerations to ensure that any decision made will be fair and in compliance with the terms of the agreement. We will provide further updates once the evaluation process is complete.

a committee which include members who have subject knowledge on this matter.

- (c) A contract, valued at Rs. 129 million to construct 06 staff quarters units within one year time period had been awarded to a private contractor on 10 August 2021. Even it has given four extensions up to September 2023 and having some remaining works the board had terminated the contract on mutual agreement and paid Rs. 131.51 million including 44.12 million price Escalation cost. Further it was observed in the audit field visit on 10 July 2024 that whole tile work and so many finishing works were still remained to complete at the site.
- In the Initial Contract, price escalation was not accounted for. However, following the signing of Contract Amendment -1, price escalation was introduced. Despite this, the Contract Bill of Quantities (BOQ) did not include a Provisional Amount.
- It should be investigated whether the price escalation and the amendment to agreement had made on reasonable basis.
- (d) According to the credit facility agreement of the project, out of the total allocation of USD 70 million equivalent to Rs.9,100 million representing 70 percent made by the lending agency, only a sum of USD 42.53 million equivalent to Rs. 9,942 million representing 60 percent of the allocation had been utilized as at 31 December 2023 after lapse of 8 years and 3 months from the commencement date of the activities of the Project. As a result, commitment charges aggregating USD 2.2 million equivalents to Rs. 390.4 million had been paid by the
- The project was unable to disburse funds to the Contractors according to the planned forecast due to the reasons outlined in sections 4.1.1 and 4.1.2. Consequently, the government incurred commitment charges in accordance with the conditions of the loan agreement. Nevertheless, the project has made every effort to mitigate the impact of this additional work within the provisions available under the Contract.
- Action should be taken to manage the unexpected situations and expedite the works to achieve the main objectives of the project and also reduce unnecessary cost

government for the undisbursed balance up to 31 December 2023.

3.5 No	System of control Audit Issue	Responses of the Management	Auditor's Recommendations
(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 Internal Audit Division of NWSDB has not conducted an audit of the Project's Financial Statement for the year 2023 as of July 31, 2024.	Action should be taken to conduct performance audit as well as financial audit.
(b)	Although the Committee of the National Operation Room (NOR) had instructed to limit the staff of the project up to 22 by the date of 30 June 2024, an action had not been taken to adhere the above decision and 29 Officials were engaging in the project.	It is essential to retain a higher number of staff to ensure effective project oversight. Consequently, the reduction will be implemented gradually. As of 31 July 2024, the number of staff members has been reduced to 27 but, only 20 nos. of staff members work station is AWSSIESP and other 7 staff members are working indifferent NWSDB work stations. The project continues to operate with a minimum number of staff, and the salaries for these staff members are being covered by the National Water Supply and Drainage Board (NWSDB).	Management should be Comply with the instruction given by the NOR Committee.