

Greater Colombo Wastewater Management Project - 2014

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2014 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 27 of Schedule 5 of the Loan Agreement No. 2557 and Section 27 of Schedule 5 of the Loan Agreement No. 2558 dated 18 December 2009 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Greater Colombo Wastewater Management Project, the Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies and then Ministry of Local Government and Provincial Councils, presently Ministry of Provincial Councils and Regional Development is the Executing Agency of the Project. The objective of the Project is to improve the urban environment and public health for 1.5 million urban and sub urban residents in Greater Colombo through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. As per the Loan Agreements, the estimated total cost of the Project is US\$ 109.12 million equivalent to Rs.12,003.53 million and out of that US\$ 94.37 million equivalent to Rs.10,380.70 million was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 09 April 2010 and scheduled to be completed by 31 December 2014. However, the period of the Project had been extended up to 30 June 2017.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Financial Reporting Standards for SMEs 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.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free

from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Financial Reporting Standards for SMEs.

- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report. I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Financial Reporting Standards for SMEs.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

It was observed that 02 motor vehicles procured at a cost of Rs.13,057,000 through the contractor had been accounted and shown in the financial statements under civil works instead of motor vehicles.

2.2.2 Non- Compliance with Laws, Rules and Regulation

According to the Paragraph 8.1 of the Circular No 33 of Department of Management Services of 05 April 2007, the officers attached to the Project are allowed to obtain financial support of the Project only for short term training courses. However, a sum

of Rs. 191,000 had been spent by the Project for the post graduate studies of 02 officers of the Colombo Municipal Council.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Provisions made in the Budget Estimate for the year 2014	<u>Funds utilization</u>			
	US\$ million	Rs. million.		US\$ million	Rs. million	US\$ million	Rs. million
ADB	94.37	10,380.70	1,479.00	11.45	1,488	20.64	2,683.67
GOSL	14.75	1,622.83	230.00	1.77	230	-	420.73
	<u>109.12</u>	<u>12,003.53</u>	<u>1,709.00</u>	<u>13.22</u>	<u>1,718</u>	<u>20.64</u>	<u>3,104.40</u>

Although an overall Project plan for entire period of the Project had been prepared at the beginning of the Project for the period from 2009 to 2014, annual action plans for that period had not been prepared and implemented to ensure the achievement of the pre-determined physical and financial targets in an economical and efficient manner within the specified period of the Project. It is observed that only 19 per cent of funds allocated had been utilized within 57 months of the period of the Project. The possibility of using of balance amount of US\$ 88.48 million within the extended period of 30 months is doubtful.

3.2 **Physical Progress**

The following observations are made

- (a) The Project had awarded 28 contracts for upgrading the sewerage infrastructure such as pumping stations, sewer pipes and discharge outfall, strengthening institutional and operational capacity in asset management, financial improvement, operational performance monitoring, environmental regulatory compliance, customer services, and pro-poor sanitation services, and project management and implementation in Grater Colombo area etc, and expected to be completed by 30 June 2017. According to the progress reports,

the overall physical progress of such works was remained at 48 per cent as at 31 December 2014.

- (b) The following matters were observed at the physical examinations made on 19 February 2015 on construction and upgrading of gravity sewer network at Wanathamulla which was awarded on 13 January 2014.
 - (i) Even though the construction work was expected to be completed by 27 January 2015, the physical progress thereon was 13 per cent as at 15 February 2015. According to the progress reports, the contractor was unable to perform the construction works continuously due to insufficient financial resources mobilized for the contract.
 - (ii) It was observed at the physical inspection that the 08 gullies and drainage systems which were half completed and remained uncovered over 02 months allowing environmental hazards such as flooding, mosquito breeding etc.