

Greater Colombo Wastewater Management Project - 2017

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2017 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 Project, then Ministry of Local Government and Provincial Councils, presently Ministry of Provincial Councils, Local Government and Sports is the Executing Agency and the Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objective of the Project is to improve the urban environment and public health condition of urban and sub urban residents in Greater Colombo area 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 amounted to US\$ 110.24 million equivalent to Rs.12,597.11 million and out of that US\$ 94.37 million equivalent to Rs.10,783.65 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 31 March 2019.

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 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.

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 Loans etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Loan Agreements had been complied with.

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, I am of opinion that,

- a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,
- b) the funds provided had been utilized for the purposes for which they were provided,
- c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- f) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments of Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The cost of 04 motor vehicles aggregating Rs.26.32 million procured by the Project through the contractors engaged in civil construction works of the Project had been shown under civil works, without considering the nature and the different useful lives of the respective assets.
- (b) The cost on renovation of building aggregating Rs.6.33 million had been erroneously shown under the machinery and equipment, due to classification errors.

2.2.2 Non- Compliance with Laws, Rules and Regulation

The reports of Board of Survey on property, plant and equipment made for the year under review had been submitted only on 08 May 2018 and as a result, value of such assets aggregating Rs.615.68 million shown in the financial statements had not been adjusted according to the recommendations made thereon.

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 2017 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in the Budget Estimate for the year 2017	Funds utilized			
	US\$ million	Rs. million	Rs. million	during the year 2017		as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	94.37	10,783.65	2,905.00	9.51	1,455.00	51.51	7,081.75
GOSL	15.87	1,813.46	475.00	2.18	334.00	8.12	1,139.10
	<u>110.24</u>	<u>12,597.11</u>	<u>3,380.00</u>	<u>11.69</u>	<u>1,789.00</u>	<u>59.63</u>	<u>8,220.85</u>

According to the above information, it was revealed that only US\$ 59.63 million equivalent to Rs.8,220.85 million had been utilized as at 31 December 2017, out of the total allocation of US\$ 110.24 million equivalent to Rs.12,597.11 million even after lapse of 07 ½ years from the commencement of the activities of the Project. However, the possibility on utilization of entire allocation for the activities of the Project during the rest of the period of 15 months is remote, as there was no comprehensive implementation plan for the Project since the commencement of the activities of the Project. According to the explanations made by the Project Director, the Colombo City Development Plans had been changed subsequently, due to introduction of mega projects such as Port City, Colombo Central Business District and Water Front Development etc and as a result, the Wastewater Management projects got delayed and difficult to finalize.

3.2 Physical Progress

For the purpose of improving the hygiene and sanitary condition of inland water in Grater Colombo area, the activities of the Project had been implemented under 03 main components namely, upgrading of sewerage infrastructure, strengthening of institutional and operational capacities and project management and institutional support. The activities of supplying of

sewer cleaning equipment and operational and maintenance equipment under the component of upgrading of sewerage infrastructure had been completed even as at 31 December 2016 whilst the physical progress on works under the rehabilitation of gravity sewers of 10 kilometres of gravity lines and conducting condition assessment of 125 kilometres of sewer lines had remained slow, due to failures of the contractor to deploy human and physical resources adequately. Further, the designing of pumping stations for rehabilitation works was also remained behind the targets as at 31 December 2017, due to delays in awarding contracts and the inadequate designing capacities of the contractor.

3.3 Contract Administration

The following observations are made.

- (a) The works under the upgrading of Wanathamulla gravity sewer network had been abandoned subsequently, due to damages made by the contractor to the private residencies without adopting safeguard practices. Further, insurance coverage on comprehensive basis had not been obtained by the contractor as enable to compensate the loss occurred to the underprivileged urban communities. Due to suspension of the works under the contract, the repairing works of damaged houses at Seevali Mawatha and Saranapalahimi Mawatha had not been carried out by the contractor. At the time of suspension of the works on 15 April 2017, the works valued at Rs.34.19 million based on the rates quoted in the initial Bill of Quantities had remained uncompleted. According to the information received, the Engineers' Estimate for respective works had been prepared at a cost of Rs.65.67 million subsequently based on new rates.

- (b) According to the information received, the part of contract the for laying of wastewater pipelines in the northern catchment of Colombo Sewer System and Kirulapona and Narahenpita area awarded under the contract for rehabilitation of 10 kilometres sewer lines and conducting assessment of 125 kilometres of sewer lines had been eliminated, due to recent development works conducted in the respective areas. Therefore, action had been taken by the Project to amend the contract agreement on the reduction of the scope of works.

3.4 Resettlement Activities

According to the information received, the action initiated by the Project in 2013 to resettle 67 families including 10 families who encroached government lands at Dematagoda had not been completed even as at 31 December 2017, due to delays in implementation of relocation plans of the Urban Development Authority. Further, the Project had estimated an additional cost of Rs.40.30 million to resettle encroached families at other locations. In addition, the Project had to incur a sum of Rs.4 million to resettle an unauthorized occupant at Mallikarama Road in Dematagoda.