

Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 Project for the year ended 31 December 2018 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 4.03 of Article IV of the Loan Agreement No. 3030 dated 03 June 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement, the Ministry of Internal and Home Affairs and Provincial Council and Local Government is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agency of the Programme. The objectives of the Programme are to improve the water supply and wastewater service and management in Greater Colombo and improve efficiency and financial sustainability of water supply and wastewater services in Greater Colombo area. As per the Loan Agreement, the estimated total cost of the Programme amounted to US\$ 9.44 million equivalent to Rs. 1,230.60 million and out of that US\$ 08 million equivalent to Rs.1,042.88 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 187.72 million is expected to be financed by the Government of Sri Lanka. The Programme had commenced its activities on 23 September 2014 and scheduled to be completed by 30 June 2019. However, the date of completion of the activities of the Programme had been extended up to 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 appeared in 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.

In preparing the financial statements, management is responsible for assessing the Programme ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Programme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Programme's financial reporting process.

The Programme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Programme.

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 Programme.
- 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 Deficiency

Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendation
The exchange gain on foreign currency had been deducted from the non-current assets.	2.17	Understatement of the values of non-current asset and liabilities.	The action will be taken to apply most appropriate accounting treatment.	Fair values of the non-current assets should be reflected.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Section 6 (01) (a) of the Public Contract Act, No. 03 of 1987	The contractor who accepts a contract at a cost of Rs. 5 million or more is required to be registered at the Register of Public contract and within 60 days after the signing of the contract agreement the contract agreement should be registered at the Register of Public Contracts. However, the contractors who engaged in civil construction and supplies contract had not complied with this requirement.	It is unable to take action against the contractor on matters connected on legal and taxation.	Action had been taken to inform the contractors to comply with the statutory requirement.	The action is required to be taken to influence the contractors to comply with these requirements.

3. Physical Performance

3.1 Physical progress of the activities of the Programme

The activities of the Project are implemented under 03 main components of Upgrading of Sewerage infrastructure, Strengthening of Institutional and Operational Capacity, Project Management and Institutional Support. However, there is no comprehensive implementation

plan for the Programme since the commencement of the activities of the Programme. According to the information received, only US\$ 1.10 million equivalent to Rs. 172.40 million had been utilized as at 31 December 2018, out of the allocation of US\$ 8.00 million equivalent to Rs. 1,042.88 million made by the Lending Agency, even after lapse of 4 ½ years from the commencement of the activities of the Programme. The following observations are made thereon.

Component	Audit Issue	Impact	Reasons for delays
(a) Preparation of detailed designs and bid documents on waste water management systems.	The works under the contract on construction of Kirulapone sewer line had not been commenced.	The intended objectives of the Programme will not be achieved during the extended period of the Programme.	Due to delays in allocating land for the construction of Thalakotuwa Garden Pump Station.
(b) Carryout condition Assessment Survey, CCTV investigation and sewer line cleaning	The surveys on wastewater cleaning using CCTV technology and preparation of asset database of sewers lines of 108 kilometres was scheduled to be commenced on 01 July 2016. However, the contract thereon had not been awarded even as at 31 December 2018.	The activities and intended objectives of the Programme will not be achieved during the extended period of the Programme.	Due to slowness of selection of qualified service suppliers.
Response of the Management	Procurement process for re-bidding is being done at present and necessary actions are being taking to extend the period of the contract.		
Auditor's Recommendations	Expedite action is required to be taken to award the contract of the Programme before expiration of the period of the Programme.		

3.2 Issues Related to the Environmental Matters

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Environment Officer of the Programme had resigned with effect from 22 October 2018. As per the schedule No. 5 of the Loan Agreement environmental performance of the Programme should be monitored regularly and the reports thereon are required to be submitted to the Lending Agency semiannually.	The environmental assessments over the activities of the Programme would not be carried out regularly.	Temporary arrangement had been made to assure the compliance with requirement of environment monitoring. Action had already been taken to fill the vacancy.	This requirement is a must as the activities of the Programme are environment sensitive. Therefore, action should be taken immediately to recruit an Environmental Officer.

However, environmental monitoring report and social safeguard monitoring report had not been prepared and submitted.

3.3 Issues Related to Human Resources Management

Cadre Position	Cadre Positions as at 31 December 2018			Impact	Response of the Management	Auditor's Recommendations
	Approved	Actual	No. of vacancies			
01. Project Director	1	1	0	Smooth operations of the activities of the Programme would be affected.	These positions are required for the construction supervision duties at work sites. Recruitment for some positions were delayed until awarding of the contracts.	Prompt actions are required to be taken to deploy suitable persons.
02. Construction Engineer	2	1	1			
03. Project Engineer	8	2	6			
04. Assistant Project Engineer	7	3	4			