

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 (Ambathale Energy Saving Project) - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 02 (Ambathale Energy Saving 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 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 City Planning, Water Supply and Higher Education is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to extend the water supply access and fostering the water system sustainability in the Greater Colombo area. As per the Credit Facility Agreement, the estimated total cost of the Project was US\$ 100 million equivalent to Rs. 13,000 million and out of that US\$ 70 million equivalent to Rs. 9,100 million was agreed to be financed by Agence Francaise De Development. The balance amount of Rs.3,900 million is expected to be financed 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 up to 31 May 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Paragraph 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project 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 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.

In preparing the financial statements, management is responsible for assessing the Project 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 Project or to cease operations, or has no realistic alternative but to do so.

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

The Project 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 Project

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

The following observations are made.

	Accounting Deficiency	Amount Rs. million	Impact	Comments of the Management	Auditor's Recommendation
	The payments aggregating Rs. 402.80 million made to the Road Development Authority and Provincial Road Development Authority for the reinstatement of 05 roads damaged, due to pipe laying works of 12,292 metres had been brought to account as the cost of works done as at 31 December 2018, eventhough the pipe laying works of 687 metres at Sedawatta Road was only completed at a cost of Rs. 23.56 million as at 31 December 2018.	379.24	Overstatement of the cost of the works completed.	Not properly commented.	The cost on actual works completed need to be taken as the cost of works done.
(b)	It was observed that the administration expenses incurred by the National Water Supply and Drainage Board on behalf of the Project had not been brought to account by the Project.	5.48	Understatement of cost of the Project.	Not commented.	All the cost incurred to implement the activities of the Project need to be taken into consideration.

2.2 Non-compliance with Laws, Rules and Regulations

The following observations are made.

	Reference to the Laws, Rules and Regulations	Impact	Comments of the Management	Auditor's Recommendation
	The financial statements of the year ended 31 December 2018 required submit to the Auditor General on or before 31 March 2019, as required by the Circular No.MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of	Not complied with the major requirement.	Accept to comply in future.	Need to adopt with the requirement.

Finance and Planning had been submitted for audit only on 04 June 2019.

3. Physical Performance

3.1 Physical Progress

The Project consisted with 05 components namely, the construction of a reservoir and booster pump station at Gothatuwa, supply and laying of 09 kilometres of Ductile Iron Pipes from Ambathale to Ellie House reservoir, rehabilitation and enhancement and energy saving of production facilities, supply of equipment and machineries and review of designs etc. According to the progress report furnished by the Project, the overall physical and financial progress of the components at the end of the year under review was remained slow at 10.84 per cent and 11.67 per cent respectively. The following observations are made.

	Activity	Progress as at 31 December 2018	Impact	Comment of the Management	Auditor's Recommendation
(a)	Supply and Laying of 09 kilometres of Duct Tile Iron Pipes from Ambatale to Ellie House Reservoir.	Out of laying of 9,000 meters, only 1,316 meters had been completed.	Possibility to extend the contract period.	The works temporarily suspended, due to shortage of proceeds of disbursements.	Remedial action should be taken to prepare the revised work plan.
(b)	Construction of Gothatuwa reservoir and Booster Pump Station with supply and laying of Duct Tile Iron Pipes.	The contractor was not mobilized even up to 31 August 2018, eventhough the contract was signed on 04 January 2018 and terminated the contract on 12 June 2019.	Possibility to extend the period of the Project.	The contract was terminated, due to disputes arisen.	Need to take action to recommence the works to avoid additional costs.
(c)	Reliability Enhancement and Energy Saving of Ambathale Production Facilities.	No significant progress had shown as at 31 December 2018.	Delays in improvement of Ambathale Treatment Plant.	There is a small delay in design works and the contractor had been given the necessary	Need to prepare the revised works plan to expedite the works.

instructions to catch up the delay.

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| (d) | Supply of equipment and machineries to the NWSDB. | Procurement process not commenced. | Delays in supply of equipment. | Due to shortage of funds, procurement got delays. | Need to take early remedial actions. |
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3.2 Contract Administration

No	Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
(a)	It was observed that a sum of US\$ 10.86 million equivalent to Rs. 1,693.75 million representing 15.50 per cent of the total allocation of US\$ 70 million made by the Lending Agency had only been utilized as at 31 December 2018, after lapse of 52 months from the date of commencement of the activities of the Project. As a result, the commitment charges of US\$ 1.5 million equivalent to Rs.227.89 million had been recovered as at 31 December 2018 by the Lending Agency.	Possibility to recover commitment charges by the Lending Agency.	The Donor Agency had suspended funds, due to slow progress on contract awarding and contract administration.	Prompt action need to be taken to adhere with the Action Plan and utilize the allocation of funds.
(b)	The contract for construction of reservoir and booster pump station at Gothatuwa with supply and laying of Ductile Iron Pipes awarded on 19 September 2017 and had not commenced the works even up to August 2018, due to the financial problems faced by the contractor. Therefore, the contract had been terminated on 12 June 2019 and no action had been taken by the Implementing Agency to select a new contractor even as at 31 July 2019. Further, the Project had agreed with the outgoing contractor to pay a sum of Rs.18.37 million, as a settlement charge without being shown any significant physical progress thereon.	Losses incurred blindly on applying of procurement process.	Without termination of the existing contract, it is impossible to select a new contractor to the same Project.	Implementing and Executing agencies should draw a attention to past performance and financial capability of the contractors before awarding the contracts.

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| (c) | The contract for supply and laying of 09 kilometres of Ductile Iron Pipes from Ambathale to Elli House Reservoir commenced on 01 July 2016 had been terminated on 01 September 2018. | Possible overrunning of costs. | The Project had taken action to enter in to a supplementary agreement with the contractor on 04 January 2019 to recommence the works. | Need to advise the contractor as the respective works had not been commenced even as at 30 June 2019. |
| (d) | As per the decision taken by the Dispute Adjudication Board on 16 July 2018, the Project had been directed to settle financial charges amounting to Rs. 13.66 million to the contractor involved in supply and laying of 09 kilometres of Ductile Iron Pipes from Ambathale to Ellie House reservoir, due to delays in settlement of foreign currency claims. | Wasteful expenses. | Due to conditional arrangement in the contract agreement, this amount had to be incurred. | Action need to be taken to avoid such costs in the future Projects. |
| (e) | The contract for design review and construction supervision consultancy services was awarded in December 2018 and commenced the works on 01 June 2016. However the physical progress of the works remained at 50.42 per cent as at 31 December 2018, due to delays in deploying key experts by the contractor. | Possibility to overrun costs. | Due to the delay in execution of the contract, the key staff of the Consultant was mobilized proportionately as per the project requirements. | Instructions should be given to contractors to expedite the works as per the revised work plan and closely monitor the contractors works. |

3.3 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Transaction of the Project had not been subject to the Internal Audit of the National Water Supply and Drainage Board as required by the Circular No. 05 of 26 July 2010 of the Department of Management Audit.	Financial controls would be weaken.	Accepted.	Need to adopt with the requirement.