

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

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 for the year ended 31 December 2019 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 observation which 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, then Ministry of Local Government and Provincial Councils, presently Ministry of Public Service, Provincial Councils 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 water supply and wastewater service management in Greater Colombo and to 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\$ 8.00 million equivalent to Rs. 1,042.88 million was agreed to be financed by the Asian Development bank. The balance amount of US\$ 1.44 million equivalent to 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2019 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 Non- Compliance with Laws, Rules and Regulations

| Reference to the Laws Rules and Regulations ----- | Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendation ----- |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 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 within 60 days after the signing of the contract. Further, the contract agreement should be registered at the Register of Public Contract However, the contractors who engaged in civil construction and supplies contract had not complied with this requirement. | The action could not be raised against the contractor on matters connected to the legality 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 Programme are preparation and approval of detailed design and bid documents for investment in wastewater management under Tranche 3 and condition assessment survey and sewer cleaning of 125 Km of the sewer network in Colombo city. However, there is no comprehensive implementation plan for the Programme since the commencement of the activities of the Programme. According to the information received, Out of the allocation of USS 8.00 million equivalent to Rs.1,042.88 million made by the Lending Agency, only US\$ 1.70 million equivalent to Rs.282.87 million had been utilized as at 31 December 2019 even after lapse of 5 years from the commencement of the activities of the Programme. The following observations are made thereon.

| Component | Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| (a) Consultancy Contract | Eventhough the consultancy contract commenced on 25 April 2016 and scheduled to be complete by 25 April 2020, the contract achieved only 33 percent physical progress up to 31 December 2019. | The intended objectives of the programme will not be achieved during the period of the programme. | Procurement process for rebidding is being done at present and necessary actions are being taking to extend the period of the contract. | Prompt action is required to be taken to complete the activities of the Programme before expiration of the period of the Programme. |
| (b) Carryout Condition Assessment Survey, CCTV instigation and sewer line cleaning | The Surveys on wastewater cleaning using CCTV technology and preparation of asset database of sewers lines 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 2019. | -Do- | Bids called two times but could not select a qualified bidder in both occasions. 3 rd bidding is in progress with reduced technical requirement and giving more publicity. | -Do- |

3.2 Issues related to the Environmental Matters

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| The Environment Officer of the Project had resigned with effect from 22 October 2018. As per the Loan Agreement schedule no.5, environmental performance of the Project should be monitored regularly and the reports thereon are required to be submitted to the Lending Agency semiannually. However, environmental monitoring report and social safeguard monitoring report had not been prepared and submitted. | The Environmental assessments over the activities of the Programme would not be carried out regularly. | No designated position of Environment Officer for Tranche 2 project. The environment activities of the project is carried out by the consultants with Environment Officer of the PMU. | Action should be taken to recruit the environment officer. |

3.3 Issues Related to Human Resources Management

| Cadre Position ----- | Carder positions as at 31 December 2019 ----- | | | Impact ----- | Response of the Management ----- | Auditor's Recommendation ----- |
|-----------------------------------------------------|-----------------------------------------------------|------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| | Aproved ----- | Actual ----- | vacancies/ excess ----- | | | |
| 01. Deputy Project Director (Engineering) | 02 | 01 | 01 | Smooth operations of the activities of the Programme would be affected, due to unfilled 12 vacancies. | As stated in the schedule, no separate cadre for each project. All activities of the projects are carried out by the staff designated to the Greater Colombo Water and Wastewater Management Improvement Investment Programme and Greater Colombo Wastewater Management Project. | Prompt actions are required to be taken to fill 12 vacancies in the key post. |
| 02. Project Engineer (Procurement) | 01 | - | 01 | | | |
| 03. Project Engineer | 10 | 07 | 03 | | | |
| 04. Environment officer | 01 | - | 01 | | | |
| 05. Project Secretary – I | 02 | 01 | 01 | | | |
| 06. Assistant Project Engineer – II | 07 | 05 | 02 | | | |
| 07. Management Assistant – II | 05 | 03 | 02 | | | |
| 08. Construction Manager - I | <u>02</u> 30 | <u>01</u> 18 | <u>01</u> 12 | | | |