

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 2 (Ambathale Water Supply System Improvement and Energy Saving Project) - 2019

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project) 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 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 Water Supply 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 Table 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 2019, 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

No	Accounting Deficiencies -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	Mobilization advance amounting to Rs.8.43 million paid to the contractor and retention money amounting to Rs. 2.81 million recovered from the interim payment certificate of ICB-04 had not been brought to the financial statements. As a result, work-in-progress of the Project had been understated by similar amounts.	Understatement of work- in- progress	These amounts are related to the year-end accounting for contractors' bills payable. Based on auditors' recommendation, we will identify the mobilization advance and retention amounts when the year-end payable amounts are accounting in the future.	Actions should be taken to rectify the deficiency
(b)	A sum of Rs. 402.8 million (without Value Added Tax) had been paid to the Road Development Authority and Provincial Road Development Authority for overlaying the carpet after completion of the pipe laying works of 13,691 metres. However, 588 metres of pipe laying works had only been completed up to 31 December 2019. As a result, the value of the work-in-progress had been overstated by approximately Rs.382.63 million in respect of uncompleted works of 13,103 metres pipe laying works.	Overstatement of work- in- progress	Total Payment made to RDA & PRDA is Rs. 464 million for the permanent reinstatement (full overly) along Sedawatta - Ambatale Road. The length of 1388.35 m pipe laying and length of 588 m permanent road reinstatement were done up to 31 December 2019. RDA payment shall be made to prior to commence the Construction activities of pipe laying in order to obtain RDA clearance for execution of Construction activities. Also, this payment was made from GoSL funds which was not a part of awarded Contract sum. However, this amount is a cost for the project and not indicated in the physical progress. We will adjust the financial statements of the year ended 2020 according to the auditors advice .	Actions should be taken to rectify the deficiency

3. Physical performance

3.1 Physical progress

The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 30 June 2019. However, the period of the Project had been extended up to 31 May 2022, due to failure of the achievement of target within the scheduled period by the Project. According to the progress reports of the Project, the overall physical and financial progress of the Project as at 31 December 2019 were 23.08 per cent and 21.96 per cent respectively. Physical of the Activity wise as follows.

No	Activity	Units	Expected targets	Target achieved as at 31 December 2019	Impacts	Management Responses	Auditor's Recommendations
(a)	Supply and Laying of 9 km Duc tile Iron Pipes (1200mm Dia) and Accessories from Ambathale to Ellie House Reservoir (ICB-04)						
	- Pipe laying						
	- Overall contract progress	Metres percentage	9,000 100	1,388.35 26.08	Delaying the construction and unable to complete the contract within scheduled time period. As a result, possibility to extend the contract and Project period.	Contract was terminated by the contractor due to non-payment as AFD has temporarily suspend the disbursement of funds. Payments were delayed due to unavailability of Budgetary allocations. All payments has been made as per amendment 01 and recommenced the works on 25 November 2019.	Actions should be taken to expedite the works within the schedule contract period and closely monitor the contract works by the Project monitoring unit.

(b)	Reliability enhancement and energy saving of Ambathale facilities for saving energy through installation of efficient pumps with appropriate capacities, reducing transmission losses through reduced friction and enhancement of other production facilities (ICB-05)	percentage	46.10	19	Delaying the supply and installation of efficient pumps and production facilities for reducing transmission loss and energy savings.	Advanced payment was delayed due to unavailability of Budgetary allocations at the end of 2018 for the Project; Payment was delayed by AFD due to their vacation, Contractors poor performance. 'Notice to correct' was issued to the contractor due to their less progress.	Actions should be taken to supply and install efficient pumps and production facilities and expedite the other related laying contracts.
(c)	Supply of Equipment and Machineries to Western Production of the NWSDB (ICB-6)	percentage	100	93	Equipment will not be received to the NWSDB timely	Tender for Lot C was recalled, but no offers were received and contract Lot F was terminated and performance bond was encased	Actions should be taken to offer the tenders of lot C and F.
(d)	Design Review and Construction Supervision Consultancy Services (DRCSC)	percentage	98.04	74.46	Expected consultancy service could not be obtained to the Project within scheduled Project period due to delays in deploying key	Part of experts was not mobilized as per the schedule due to less progress of construction contracts. Contract extended one year period from 01 June 2019. .	Instructions should be given to contractors to expedite the works as per the revised work plan and closely monitor the contractors work.

			experts by the contractor. As a result, possibility to extend the period of consultancy contract.		
(e)	Construction of Gothatuwa reservoir and Booster Pump Station with Supply and Laying of 5 Km,1200mm DI pipes (ICB-03)	Contract was mutually terminated on 12 June 2019 and new contract had been awarded to the second lowest bidder on 04 August 2020.	Delaying the construction and possibility of extending the Project Period.	At the time of awarding the ICB 03 Contract to the Ex-Contractor, the land of IDH was conditionally available as per the Memorandum of Understanding (MOU) signed between NWSDB & Ministry of Health. However, due to the mutual termination process of ICB 03 Contract, NWSDB was unable to fulfil the commitment of Construction of 06 Nos. quarters for IDH Hospital. There was no issue between the awarding of Contract and the obtaining of	Actions should be taken to complete the contract within scheduled time period and closely monitor the contractor works.

land from IDH management. Finally, the IDH Management refused to release the land for the above purpose due to Covid-19 pandemic and other health issues and the awarding of ICB 03 Contract to 2nd lowest bidder on 04 August 2020 due to delay occurred due to Covid-19 Pandemic. However, ICB 03 Contract will not be able to Complete before 31 January 2022 as the Contract was awarded on 04 August 2020 with the Contract period of 20 months.

3.2 Contract Administration

No	Audit Issues -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	The consultancy contract for design review and construction supervision was awarded in December 2015 and scheduled to be completed by 31 May 2019. Subsequently, the consultancy period had been extended up to 31 May 2020. The physical and financial progress of the consultancy contract was remained at 74.46 per cent and 57.50 per cent respectively as at 31 December 2019 and it was 84.36 percent and 60.52 percent respectively as at 31 May 2020.	Over run the consultancy cost in future.	Consultancy Contract was commenced in 01.06.2016. The International and Local Key Experts has not been mobilized as per the original Schedule due to delays of Construction contract packages.	Instruction should be given to contractors to expedite the construction works and closely monitor the contractors work.
(b)	The contract for supply and laying of 9 km DI pipes (1200 mm dia) and Accessories from Ambathale to Ellie House Reservoir (ICB-04) had commenced on 01 July 2016 and scheduled to be completed within 672 days from the date of commencement. However, the contract had been terminated with effect from 01 Sep 2018, due to fund disbursements had been stopped by the Donor temporarily. As per the amendment 01 to the contract agreement, works were scheduled to recommence in May 2018 and the works had been recommenced in November 2019 after a lapse of seven months. According to the progress report of the contract, the overall physical and financial progress of the contract as at 31 December 2019 was 26.08 per cent and 48.64 per cent respectively. Further, out of total laying of 9,000 metres, 1,338.35 metres representing 14.87 per cent had only been laid as at 31 December 2019 and the pressure testing of the completed laying works had not been carried out even up to 31 July 2020 and it was 3,347.92 metres as at 31 July 2020. Out of 3,347.92 metres of permanent road reinstatement laying, 1,019 metres of laying had only been completed.	Delaying the laying works may adversely affect the Project completion within schedule time period.	The amendment no. 01 to the ICB 04 Contract agreement was signed 04 January 2019. The physical progress of ICB 04 Contract shall be corrected as 26.08% and the financial progress of the ICB 04 Contract is 48.64% as at 31 December 2019. This financial progress of 48.64% was achieved due to importing of 50% of Supply of DI pipes, fittings and accessories. However, the allocated weightage under physical progress for the total supply of DI pipes, fittings and accessories is 25%. The	Expedite the laying works and closely monitor the contractors work.

balance 75% of works are for pipe laying, pressure testing, disinfection & Road reinstatement. Therefore, actual financial progress is higher than the physical progress. Generally permanent road reinstatement is done after the pressure testing. But Contractor had to do permanent road reinstatement of few sections due to the public issues, raised by the road users and RDA.

The pressure testing is planned to carry out in section wise (length of one section is around 1000 m). The pipe laying was done by two teams in two sections, but none of those sections were completed due to unexpected site condition.

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| (c) | The contract for reliability enhancement and energy saving of Ambathale facilities for saving energy through installation of efficient pumps with appropriate capacities, reducing transmission losses through reduced friction and enhancement of other production facilities had been awarded on 13 September 2018 after lapse of 04 years from the date of | Possibility of extending the Project period and overrun the Project cost in future. | Progress of ICB 05 Contract is less as per the reasons given in the item 1.3 (a). Also, ICB 03 and ICB 04 Contract packages were unable to perform in regular | Action should be taken to complete the contract within scheduled time period and closely monitor the contractor. |
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commencement of the activities of the Project, eventhough this contract package represent 45.60 per cent of weightage from the whole Project activities. As per the progress report of the contract, physical progress of 23.08 per cent had only been achieved as at 31 December 2019 against the expected physical progress of 53.04 per cent.

manner as per the initial plan due to Contract terminations and Contractual disputes. Therefore, the progress of overall project progress is less. However, the target physical and financial progress of Project shall be corrected as 53.04% and 23.08% respectively as at 31 December 2019.

- (d) The contract for construction of Gothatuwa reservoir and booster pump station with supply and laying of 5 km, 1200 mm DI pipes had been mutually terminated in June 2019, due to incapability of the selected contractor to perform the works and contractual disputes. Subsequently, Asian Development Bank had given concurrence to re-award and the approvals of the Cabinet of Ministers were received to award the contract to the second lowest bidder. However, new contract had been awarded to the second lowest bidder only on 04 August 2020 with the contract period of 20 months and the acquisition of proposed land for the construction of water reservoir and booster pump station at Infectious Disease Hospital (IDH) under this contract had not been finalized since 2013. As a result, it had been proposed to shift the aforesaid constructions from IDH premises to Ambathale premises since the management of the IDH hospital had been objected to release the Land to National water Supply and Drainage Board. Therefore, it was observed that the contract will not be able to complete before the closing date of the AFD Credit Facility on 31 January 2022.

Possibility of extending the Project period and overrun the Project cost in future.

At the time of awarding the ICB 03 Contract to the Ex-Contractor, the land of IDH was conditionally available as per the Memorandum of Understanding (MOU) signed between NWSDB & Ministry of Health. However, due to the mutual termination process of ICB 03 Contract, NWSDB was unable to fulfil the commitment of Construction of 06 Nos. quarters for IDH Hospital. There was no issue between the awarding of Contract and the obtaining of land from IDH management. Finally, the IDH Management refused

Immediate actions should be taken to commence the construction.

to release the land for the above purpose due to Covid-19 pandemic and other health issues and the awarding of ICB 03 Contract to 2nd lowest bidder on 04 August 2020 due to delay occurred due to Covid-19 Pandemic. However, ICB 03 Contract will not be able to Complete before 31 January 2022 as the Contract was awarded on 04 August 2020 with the Contract period of 20 months.

3.3 Matters in Contentious Nature

No	Audit Issues -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	As per dispute No.03 of the ICB-04 contract, the contractor had claimed a sum of Rs.11.64 million under the BOQ item No.3.044 in respect of the supply of Joint sealant materials (mastic materials) for both Flanged type joints and Restrained type joints. However, the engineer had denied the contractor's claim based on clause No.03 under class 01 of the contract preamble since it does not specifically cover supplying of protection materials. However, the decision of the Dispute Adjudication	Possibility of paying double payment for same material.	This mastic material issue comes under the ICB 04 Contract; hence the statement of the audit report shall be corrected. The location of the pipe trace is clearly indicated in the designed drawing of the Contract. As per the preambles of the Contract, the rate for pipes in trenches shall include for protection of flanged joints, flanged adaptors, couplings, and restrained joints by applying primer, mastic profile, mastic tape and PVC or polythene outer wrapping as specified. Hence, BOQ item is	Actions should be taken to preparation of contract clauses without any ambiguities.

Board was in favor of the contractor, due to the ambiguity in the contract clauses. Therefore, it was observed in audit that the National Water Supply and Drainage Board had not properly given the description of Bill of Quantities whether mastic materials for both Flanged type and Restrained type joints is to be supplied separately or whether both supplies cost included in the rates for pipes in trenches at the time of preparing the documents.

not available to supply the mastic materials for the joints (flanged joints, flanged adaptors, couplings, and restrained joints) of the pipes in the trenches. Also, the BOQ item No. 3.044 was provided for the supply of mastic material for flanged joints, flanged adaptors and couplings. Hence, there was an ambiguity in the Contract documents. Also, the Contract document was not prepared by the Project.

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| (b) | A sum of Rs.22.50 million had been paid as financial charges and a sum of Rs.822,500 had been paid as adjudicatory fees for the decisions of Dispute Adjudication Board on three disputes relating to the ambiguity of the preparation of ICB-04 contract clauses during the year under review. | Use of Project funds for unrelated activities | These three disputes were created due to the ambiguity in the ICB 04 contract agreement/document. | Closely evaluate the contract clauses before approved the bid document by TEC and PC. |
| (c) | A sum of Rs.2.37 million had been paid for rate and taxes, survey charges and advertisement charges in acquiring the plot of land of the IDH premises for construction of the Ground Reservoir and pump station under the Project during the year under review. However, such expenses had been become fruitless expense to the Project since the proposed constructions work at the IDH premises had been shifted to the Ambathale premises. | Uneconomic expenses to the Project. | Agreed with statement of the auditor | System should be developed to mitigate such unnecessary expenses. |

3.4 Idle/Unutilized/Underutilized Recourses

No	Audit Issues -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	As per the financial statements of the Project, out of the total allocation of U\$\$ 70 million made by the Lending Agency, a sum of U\$\$ 13.86 million equivalent to Rs.2,238.85 million had only been utilized at the end of the Loan period. As a result, commitment charges aggregating U\$\$ 1.65 million equivalent to Rs.255.14 million had been paid by the General Treasury up to 31 December 2019, due to 80 per cent of Loan had not been utilized. Further, additional commitment charges would be incurred in future since the period of the Loan had been extended up to 31 January 2022.	Additional commitment charges would be incurred	The financial disbursement has to be done as per the physical progress of the Project. However, due to reason given above, the project is unable to achieve the target physical progress. Accordingly, the expected disbursement was unable to make and as a result of this, the funding agency charged the commitment charges as stated in the Credit facility agreement.	Actions should be taken to expedite the works.

3.5 System and Controls

No	Audit Issues -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	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.	Poor control over financial and operational activities of the Project may adversely affect the Project performance .	Internal audit had not been carried out for the financial year 2019.	Actions should be taken to implement an Internal audit