

Greater Colombo Wastewater Management Project - 2020

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2020 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 26 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. 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 Loan Agreements, the Ministry of Local Government and Provincial Councils, presently State Ministry of Provincial Councils and Local Government Affairs is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objectives of the Project are to improve the urban environment and public health condition of 1.5 million urban and sub urban residents in Greater Colombo area through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. The activities of the Project are implemented under Greater Colombo Wastewater Management components namely (a) Upgrading Sewerage infrastructure (b) Strengthening Institutional and Operational Capacity in asset management, financial management, operational performance monitoring, environmental regulatory compliance, Customer Service and proper sanitation Services. (C) Project Management and Institutional Support. As per the Loan Agreements, the estimated total cost of the Project was 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 Asian Development Bank. The balance amount of US\$ 15.87 equivalent to Rs. 1,813.46 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 09 April 2010 and scheduled to be completed by 31 December 2014. However, the date of completion of the activities of the Project had been extended up to 31 December 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 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 this 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 Accounting Deficiencies

No	Accounting Deficiency	Amount Rs.	Response of the Management	Auditor's Recommendations
(a)	Although the settlement fees paid to the members of the arbitration committee could not be identified as assets under Section 19 of Sri Lanka Accounting Standard No16, it was identified as assets in the financial statements as at 31 December 2020.	11,760,537	Cost borne for the dispute board and the arbitration, cost arise while the operation of contract is determined as part of the contract cost.	Fees cannot be identified as assets and should be stated as a separate item in the financial position.
(b)	According to the financial statements the value of machinery and equipment was Rs.637,006,943 whereas according to the fixed assets register it was shown as Rs.15,422,266. The reason for the difference of Rs.621,584,677 had not been explained to audit.	621,584,677	The fixed asset register includes only the Office Equipment and Furniture exists in the custody of the Project Management Unit. Other machinery and equipment provided through project funds for the use of Colombo Municipal Council (CMC) exists under the custody of Drainage Division of the CMC. A copy of Fixed Asset Register combining all assets for the total value has already been submitted to the audit.	Action should be taken expeditiously to submit the annual verification reports on fixed assets of Rs.621,584,677.

2.2 Non-Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-compliance	Response of the Management	Auditor's Recommendations
(a)	Section 9.3 of the Management Service Circular No.01/2019 of 05 March 2019.	The steering committee would meet at least once in two months. However, two steering committee meeting only had been held during the year 2020.	Due to prevailed situation from March 2020, it was not possible to arrange meeting for such group by adhering health guide lines on prevention of Covid.	Alternatively, online meetings should have been arranged.

- (b) Paragraph 3.2.3 of Management Service Circular No.01/2019 of 05 March 2019 No. Salaries of support staff recruited from outside of the public service, should be based on the initial step of the salary scales at the recruited level of similar posts in the public service. However, the data entry operator had been recruited in 2011 based on senior level D scale instead of initial salary scale of MN1 – 2006
- The appointment has been made giving this salary scale and payment has been made accordingly.
- Salaries should be paid in accordance with the rules and regulations.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2020		Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
(a) Rehabilitation of main sewerage system Designing, construction, and Rehabilitation of wastewater pumping station and pumping mains of Colombo Municipal Council.	Pumping Stations			Although the project was scheduled to be commence on 9 th April 2010 and to be competed on 30 th June 2015, the closing date has been extended for 4 times until 31 st December 2021 due to weaknesses of contract management, project allocation, feasibility study, environment assessment, land acquisition, resettlement process. According to this situation project have been recorded as slow-moving project.	No proper monitoring and supervision mechanism continuously.
	<input type="checkbox"/> Wanathamulla	100	96		
	<input type="checkbox"/> Maligawatta	100	74		
	<input type="checkbox"/> Borella	100	60		
	<input type="checkbox"/> Bambalapitiya	100	99		
	<input type="checkbox"/> Vystwyke	100	70		
	<input type="checkbox"/> Thimbirigasyaya	100	73		
	<input type="checkbox"/> Slave Island	100	93		
	Pumping Mains				
	<input type="checkbox"/> Wanathamulla	100	58		
	<input type="checkbox"/> Vystwyke	100	34		
(b) Upgrading of Wanathamulla Gravity Sewer Network	Upgrading of Wanathamulla Gravity Sewer Network	100	68	The contract was terminated on 30 June 2017 and physical progress was about 68 per cent only. The balance work has been transferred to contractor for ongoing gravity sewer. Physical progress as at 31 st December 2020 was not submitted for audit.	No proper monitoring and supervision mechanism continuously.

Response of the Management

Agree with the progress data provided.

Auditor's Recommendations

Expedite action is required to be taken to complete the activities of the project before expiration of the project period.

3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The general treasury has paid Rs.118,596,882 rupees as commitment charges on the undisbursed loan balance of the OCR loan from 15 th February 2010 to 15 th August 2020.	Cost of commitment charges unavoidable. It is agreed that additional cost has incurred due to delays in loan disbursement. However, the payment of commitment charges has not affected to limit the scope of work or to achieve the objective of the Project	These costs should be minimized through proper project planning.

3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
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(a)	The project was scheduled to commenced on 09 April 2010 and to be completed on 30 June 2015. However, due to the extension of the project period by 78 months on 4 occasions up to 31 December 2021 the amount to paid consultancy services as at 31 December 2020 was Rs.1,066,143,754. According to the loan agreement the amount allocated for consultancy services was Rs.935,870,000 only an additional payment of Rs.130,273,754 had been paid as at 31 December 2020.	It is accepted that substantial cost has been incurred for the consultancy services. This has occurred mainly due to delays in Procurement process and poor performance of the on-going contract. However, it is not correct that allocation of consultancy services has been exceeded.	Expedite action is required to be taken to complete the activities of the project before expiration of the project period.
(b)	In the year 2020 seven officers of the policy supporting group were paid Rs.5,096,000 and two meeting were held on only two occasions. Although 66 months had elapsed since the completion of the project by 31 December 2020 the amount Rs.38,730,786 paid to the policy supporting groups from the inception of the project to 31 December 2020 the contribution of policy supporting group to the project was unable to evaluate due to non-submission of performance reports of policy supporting group.	The Policy support group has been entrusted with common task and various responsibilities, it is not possible to apply the method of evaluation of performance. However, wish to note that all the members of the group are engaged with some project activities in addition to their duties of the permanent position.	Policy supporting group should actively contribute to the achievement of project objectives and evaluate their performance.

3.4 Issues related to the Environmental Matters

Audit Issue	Response of the Management	Auditor's Recommendation
The environment officer of the project had been vacant since 22 October 2018. The vacant position had not been filled till 31 December 2020.	The project has taken all the attempts to recruit a suitable person for the post and was not successful due to various reasons.	This requirement is a must as the activities of the project are environment sensitive. Therefore action should be taken immediately to recruit an environment officers without further delay.

3.5 Issues Related to Human Resources Management

Cadre Position	No of Posts			Response of the Management
	Approved	Actual As at 31 December 2020	No. of vacancies	
Deputy Project Director	01	0	01	It is true that non-filling of the vacancies of the project has adversely affected to the day today activities of the project.
Project Engineer (Procurement)	01	0	01	
Construction Manager	02	01	01	
Project Engineer (Civil)	05	03	02	
Project Engineer (Mechanical)	02	01	01	
Project Engineer	01	-	01	
Environment Officer	01	-	01	
Project Secretary	02	01	01	
Assistant Project Engineer	05	03	02	
Management Assistant	05	03	02	
Driver	02	-	02	
Total	<u>27</u>	<u>12</u>	<u>15</u>	
Auditor's Recommendation	Prompt actions are required to be taken to fill the 15 vacancies with qualified staff.			