

Kandy City Wastewater Management Project - 2020

The audit of the financial statements of the Kandy City 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 4 (6) of Article III of the Loan Agreement No. SL-P 99 dated on 26 March 2010 entered into between Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comment and observation which I consider should be report to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, presently 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 is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas and thereby enhance the standard of living, health and well-being of the people in the area. The estimated total cost of the Project is amounted to Japan Yen 17,278 million equivalent to Rs.21,982 million and out of that Japan Yen 14,087 million equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency and the balance amount of Japan Yen 3,191 million equivalent to Rs. 4,060 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 02 of this report, 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

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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

Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a) As per the financial statement of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2020 was Rs.17,232 million. However, as per the financial statements of the Project, the corresponding value of work-in-progress was Rs. 16,783 million. Even though the Project had prepared the reconciliation and identified the difference of Rs.449 million, no action had been taken by the Project to rectify the difference.	Work in progress of the activities carried out by the project under Loan No. SL-P90, SL-P 99 and expenditure incurred before 30 September 2018 are included in the figure of Rs. 17,232 million which Work in Progress activities related to the project mentioned as per the financial statement of the National Water Supply & Drainage Board.	Action should be taken to rectify the differences.
(b) Total salary of the Project as at 31 December 2020 amounting to Rs.387 million had been shown under the current liabilities instead of being shown under the source of GOSL finance in the financial statements.	Salaries paid by Head Office related to the project staff as at 31.12.2020 of Rs.387 should be repaid to the head office. Hence accounted as the accrued expenses.	Action should be taken to account under the financing category.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Activities	Physical Progress as at 31 December 2020		Responses of the Management	Auditor's Recommendations
	Expected performance	Actual Performance		
(a) Design and Construction of			Delay was occurred due to difficulty in terrain and heavy traffic Contractor's delay was noticed and informed for liquidated damages (LD) But liquidated damages were not imposed due to DAB	Action should be taken to expedite the contract activities.
-Trunk sewer network	6.23km	4.5km		
Open cut	2.87km	2.65km		
Trenchless				
-Branch sewer network	71.1km	65.3km		
Open cut	5.7km	0.82km		
Trenchless				
-Property sewer network	145.2km	141km		
Open cut	11.24km	1.8km		

-Trenchless			decision	Contractor
-Force main	3.18km	2.93km	agreed to complete by	
Open cut	173m	17m	December 2021.	
Trenchless	09 Nos	03 Nos		
-Manhole pump station		functioning		
		06 Nos in		
		progress		

(b) Construction of property connection

-Construction	6,191	4,470	IPC delay	caused	Action should be
-Final connection	3,297	971	Contractor's		taken to expedite
			performance		the contract
			Action are	being	activities.
			taken	for	
			improvement		

3.2 Contract Administration

Audit Issue	Responses of the Management	Auditor's Recommendation
(a) Although the Project has not been completed, the loan recovery was set to begin in 2020. According to the External Resources Department, Rs. 803.40 million had been paid as loan recovery to the Lending Agency as at 31 December 2020, due to delays in awarding contracts on time and the poor performance of contractors.	Management Comment not received	As an Implementing Agency, NWSDB should take action to expedite the Project Performance without delay.
(b) Due to the poor project management and non-withdrawal of loan on agreed time frame, the Lending Agency had been charged commitment fee amounting to Rs. 165.32 million up to 31 December 2020.	Management Comment not received	-Do-

3.3 Extraneous Activities

Audit Issue	Responses of the Management	Auditor's Recommendation
The Project had incurred a sum of Rs.288,800 from GOSL funds for the construction of a waste water treatment plant in Peradeniya University which is not include in the Project scope.	This will be rectified by Financial Statement as at 31 December 2021	Action should be taken to make payment within the project scope.

3.4 Matters in Contentious Nature

Audit Issue	Responses of the Management	Auditor's Recommendation
The value added tax (VAT) and National Building Tax (NBT) payable as at 31 December 2020 were Rs.55.52 million and Rs. 7.51 million respectively. However, VAT and NBT amounting to Rs. 49.64 million and Rs. 7.5 million respectively had had been retained by the project over two years without being remitted to Commissioner General Inland Revenue.	Amounting to Rs. 34,316,472.23 has been settled by the Department of Treasure Operations by their letter reference To/BE03/05/01/03 (2011-166) and also the remaining amount will be settled during the year 2021.	Action should be taken to settle the balance payment without delay.

3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
The transactions of the Project during the year under review had not subjected to internal audit as per the financial regulation 133 and no Internal Auditor had been recruited as required by the Management Audit circular No.02/2016 of June 2016.	The head office will deal with the appointment of an internal auditor and the relevant documents for the year 2019 have been requested by the Internal Auditors and provided the relevant documents to Internal Audit Division.	Action should be taken to implement an internal Audit.

3.6 Matters pointed out in previous Audit Reports which remained unresolved

Audit Issue	Response of the Management	Auditor's Recommendation
The construction works of pump house in Deiyannewela had been completed and the construction of pump house near Mahamaya primary school is ongoing. However, the ownership of the lands had not been transferred to the National Water Supply and Drainage Board.	Additional land requirement is under acquisition process in Aloka Hospital premises Main Pump Station. Manhole Pump Station at Mahamaya Primary is in Irrigation Department reservation and Deiyannewela Manhole Pump Station is in a Crown land.	The NWSDB should be taken immediate actions to get transfer the ownership of the lands without further delay.