

Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-02 - 2021

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-02 for the year ended 31 December 2021 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 2.10 of Article II of the Project Agreement No. 3030 dated 03 June 2014 entered into between the Colombo Municipal Council 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 Program

According to the Loan Agreement, then 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 Agency of the Program. The objectives of the Program 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 Program 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 Program 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 Program had been extended up to 24 October 2022.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2021 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	Non-Compliance	Response of the Management	Auditor's Recommendation
Section 9.3 of the Management Circular No.01/2019	The steering committee would meet at least once in 2 months, However four steering committee meeting only had been held during the year 2021.	Due to Covid 19, it was very difficult to arrange a meeting by complying with regulations implement by the health authorities.	Alternatively online meeting should be arranged.

3. Physical Performance

3.1 Physical progress of the activities of the Program

Component	As at 31 December 2021		Audit Issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Percentage	Percentage		
Design supervision Institutional Development Consultants	100	58	Although the program was scheduled to be commence on 3 June 2014 and to be completed on 30 June 2019, the closing date has been extended for 2 times until 24 October 2022	Due to weaknesses of contract management, project allocation, feasibility study, environment assessment, land acquisition, resettlement process this program have been recorded as slow-moving program.
(a) Wastewater treatment plant at Madampitiya	100	No	The land for the construction of the wastewater treatment plant had not been acquired by the Urban Development Authority by 31 December 2021 and Environmental Impact Assessment report preparation was	Bid documents prepared by the consulting firm on 28 September 2019 had been submitted to the Asian Development Bank for review but the bidding process had not been completed by 31 December 2021, due

				temporary halted.	to lack of funds to continue the component.
(b) Provide Sewerage facilities for 7 unsaved areas in Northern catchment.	100	No		The bidding for the contract for the geotechnical investigation has not been completed.	Non-availability of additional loan funds.
(c) Rehabilitation and upgrading of existing 5 miner pumping houses in north catchment.	100	No		Condition assessment had not commenced as at 31 December 2021.	Funds for the development activity are not available.
(d) Baseline trunk sewer from Malligawtta to Madampitiya pumping station.	100	No		Draft bid document was completed but work not awarded.	Due to funds limitation.
(e) Upgrading, rehabilitation and repair of sewers in northern catchment.	100	No		The draft bids were submitted to the Asian Development Bank for review on 28 September 2019 but were not approved.	Due to funds limitation.
(f) Conditional Assessment of 97.2km of existing Sewers by using CCTV and special devices.	100	1		Although bidding process has started 2016, contract had awarded on 12 October 2021.	Due to non-implementation of the main activities of the program within stipulated time frame, expected objectives of the program had not been able to achieve.

Response of the Management Non-availability of qualified bidders, Poor progress of the on-going contract, delays in the preparation of bid document, delays in finalization priority of contract caused to delay.

Auditor's Recommendation Expedite action is required to taken to complete the activities of the program before expiration of the program period.

3.2 Contract Administration

----- Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
The procurement process of carrying out of surveys in wastewater cleaning by using CCTV and preparation of asset database of 108 kilometres of sewers lines had been scheduled to be started on 1 July 2016. However, the contract had been awarded up to 12 October 2021.	As the procurement entity has to follow more steps for the procurement process of donor funding projects than the local funding projects, it takes more time for the selection and awarding of a contract.	Action is required to minimize the time wasting and should complete the activities of the program before expiration of the program period.