

## **Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-03 - 2021**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-03 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. 3348/3349 dated 11 August 2016 entered into between the Colombo Municipal Council 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 Program**

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According to the Loan Agreements, then Ministry of Local Government and Provincial Council, 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 Program. The objectives of the Program are to rehabilitate and expand wastewater treatment plant in south catchment area including laying 29.4 km Sewer network and constructing three pump stations and to strengthen Institutional Structure and capacity building of Service provider. As per the Loan Agreements, the estimated total cost of the Project was US\$ 112.83 million equivalent to Rs. 16,401.76 million and out of that US\$ 92.29 million equivalent to Rs. 13,471.16 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 20.54 million equivalent to Rs. 2,930.60 million is expected to be financed by the Government of Sri Lanka. The Program had commenced its activities on 03 November 2016 and scheduled to be completed by 31 December 2020. However, the program period had been extended up to 24 October 2022.

### **1.3 Opinion**

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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**

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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**

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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**

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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**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non-Compliance</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Section 9.3 of the Management Circular No.01/2019	The steering committee would meet at least once in two months, however four steering committee meeting only had been held during the year 2021.	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 Project**

<b>Component</b>	<b>As at 31 December 2021</b>		<b>Audit Issue</b>	<b>Reasons for delays</b>
	<b>Expected physical performance</b>	<b>Performance achieved</b>		
	<b>Percentage</b>	<b>Percentage</b>		
(a) Provision of new gravity sewers, Force mains and Pump stations for Kirulapone catchment area.	100	67	Although the contract was scheduled to be commenced on 18 May 2017 and completed on 14 May 2020, contract was extended up to 30 July 2022. Accordingly, it was observed that the contract was delayed for about two years.	Due to the slow physical progress of the contractor, misappropriation of necessary resources, poor planning and lack of proper supervision and delays in the decisions of the policy makers.

(b) Construction of Wellawatta Wastewater Treatment Plant	100	5	The contract for the construction of Wellawatte Wastewater treatment plant was scheduled to be commenced on 21 June 2017 and scheduled to be completed on 14 December 2019, however contract was awarded on 18 December 2020 after 30 months delay.	(i)The agreement was signed with contractor on 21 October 2021, and according to the agreement and acceptance letter the land had to be handed over to the contractor for construction work within three months. However it was not handed over until 31 December 2021. (ii) The Rudra stadium in the Colombo Municipal Council was selected for this purpose and the approval was given by resolution No.543 dated 28 September 2009. Action had not been taken to hand over the land to the contractor as at 31 December 2021 by the Colombo Municipal Council.
(c) Provide Sewerage facilities to Kirula – Narahenpita Area	100	75 of pre contractor stage	Although the contract was scheduled to be commenced on 23 October 2017 and completed on 10 April 2020, the contract had not been awarded as at 31 December 2021.	(i) Although, the entire lease value of the land for 30 years had been paid to the Urban Development Authority, a formal lease agreement had not been entered with the Urban Development Authority as at 28 February 2022. (ii)Although Rs.30,060,000 had been spent for the resettlement of 6 families who had been living on the land which leased from Railway Department, those families had not been removed from the land till 31 December 2021.
(d) Repair of Defective sewers and upsizing of under – capacity sewers in southern catchment and Implementation.	100	75 of pre contractor stage	Although the contract was scheduled to be commenced on 01 November 2019 and completed on 05 December 2021, the contract had not been awarded as at 31 December 2021.	Due to the least priority at the policy level and scope of the contract was not finalized at policy level.

(e) Financial Management and Accounting System (FMAS)	100	100	The financial management and accounting system which was introduced to drainage division valued Rs.3,159,879 had been idle since 2017.	(i)The responsibility of the implementation of this package has not been formally assigned to the officers and the information on which computer the package is installed has not been submitted for audit. (ii)The Technical Evaluation Committee for the purchase of this package had recommended entering into a post warranty and maintenance agreement for a period of 3 years after the package was installed, however no audit evidence was presented to confirm compliance.
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**Response of the Management**      the Delay in handing over the sites to the contractor and the contractor’s poor performance mainly resulted in delaying the completion of the contract within the contract period.

**Auditor’s Recommendation**      Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.

**3.2 Underutilized Resources**

**Audit Issue**  
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The General Treasury has paid Rs.151 million as commitment charges on the undisbursed loan balance of the OCR Loan from 15 May 2017 to 15 November 2020.

**Response of the Auditor’s Recommendation**  
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The cost of commitment fee is unavoidable even the project is completed within the original loan period.

This cost should be minimized through proper Project planning.

### 3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	In terms of Loan Agreement, the Program was scheduled to commence on 3 November 2016 and was to be completed on 31 December 2020 however the closing date of the Program had been extended up to 24 October 2022 due to slow progress of the project.	Due to slow progress the project had to be extended.	Expedite action is required to be taken to complete the activities of the Project before the expiration of the Project period.
(b)	Although nearly 12 months had elapsed since the completion of the Program by 31 December 2021, Rs.41.2 million had paid to a policy supporting groups as at 31 December 2021.	Payment to the policy support group is made based on the appointment of the approved carder of the project.	Should actively contribute to the achievement of Project objectives and evaluate their performance.