

## **Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-02 - 2022**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-02 for the year ended 31 December 2022 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 Ministry of Public administration, Home Affairs, Provincial Councils and Local Government 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 2022 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**

No	Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
(a)	Paragraph 9.3 of Management Service Circular No 1/2019 of 15 March 2019.	The steering committee would meet at least once in 2 months, However only four steering committee meeting had been held during the year 2022.	The convening of meetings has been limited due to the fuel crisis at the beginning of 2022 and the constantly changing scope of the ministry.	The meetings of the Project Steering Committee required to be held as per the Circular Instruction.
(b)	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Meeting of the Audit and Management Committees required to be held four in the year. However, one meetings had been held during the year under review.	No comment.	The meetings of the Audit and Management Committees required to be held regularly.

**3. Physical Performance**

**3.1 Physical progress of the activities of the Program**

Component	As at 31 December 2022		Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
Design supervision Institutional Development Consultants	100	65	I. Although the programme was schedule to be commence on 3 <sup>rd</sup> June 2014 and to be completed on 30 <sup>th</sup> June 2019, the closing date has been extended for two times until 24 October 2022. Overall project progress is 57.27 percent as at 24 October 2022. However, programme was	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.

closed with one completed project outputs.

II. 33 percent of total project period had been spent for selecting a consultancy firm. However, the consultancy firm couldn't be completed work as per agreed time period. Then contract had been extended two times by 2 1/2 years. 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

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It was observed that due to the delay of construction of the Madampitiya Wastewater Treatment Plant, about 95,000 cubic meters of wastewater received daily to the pumping station has to be discharged into the sea without any treatment. The land for the construction of the wastewater treatment plant had not been acquired by the Urban Development Authority by 31 December 2022 and Environmental Impact Assessment report preparation was temporary halted due to the lack of funds.

(b) Provide Sewarage facilities for 7 unsaved areas in Northern catchment.	100	91	The contract for the Topographical survey of the pumping station sites and road network has been completed however the bidding for the contract for the geotechnical investigation has not been completed. Information on consultancy contract costs incurred as on 31 December 2022 was not submitted for audit and delay period was about 39 months as at 31 December 2022.	Procurement process of this activity has been temporarily halted due to non-availability of additional loan funds.
(c) Rehabilitation and upgrading of existing 5 miner pumping houses in north catchment.	100	69	Although Colombo Municipal Council has decided to carry out the condition assessment by their own funding, condition assessment had not commenced as at 31 December 2022.	Funds for the development activity are not available.
(d) Baseline trunk sewer from Malligawtta to Madampitiya pumping station.	100	91	The delay period was nearly 39 months as at 31 December 2022.	Due to funds limitation.
(e) Upgrading, rehabilitation and repair of sewers in northern catchment.	100	82	The draft bids were submitted to the Asian Development Bank for review on 28th September 2019 but were not approved and topographical survey awarding was delayed.	Due to funds limitation.

(f)	Bio solid management	100	82	Although the final workshop on Preparation of bio solid Management Guidelines was held on 13th November 2017, it was observed that the final guidelines for gazette notifications had not been translated into Sinhala and Tamil till 31st December 2022.	It has to be translated in to Sinhala and Tamil by Environment Authority and gazetted.
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**Response of the Management** Selection of consultants with the knowledge on sewer system development is difficult task, Non-availability of funds and Poor progress of the on-going contract caused to delay.

**Auditor's Recommendation** Action should be taken to make allocation and implement the program.

### 3.2 Contract Administration

	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a)	Total consultancy expenditure had been increased 61 percent up to 5.29 million dollars due to extension of contract. However, expected target had not been achieved.	It is true that consultancy cost has increased due to extension. But out of total number of the consultants in the contract, only the minimum numbers of the consultants were recruited. Also, they were assigned for the design works of the sewer connectivity of the Port City Development which was not their original scope of the contract. Consultants cost also increased due to annual increase of the rate in line with the Colombo Consumer Price Index (CCPI), as per the provision of the contract.	Arrangement should be taken to supervise of balance works by CMC staff.

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| (b) | <p>Agreement was signed with the firm for Closed-Circuit Television contract beyond 8 month of project closing date without any funding arrangement. The CCTV contract was terminated on 24 October 2022 with Rs.3.12 million additional payment due to project closing. However, 58 kilometers of gravity sewers of 89 kilometers and 1242 manhole of 1974 had not been completed.</p>   | <p>It was known fact that at the time of awarding the contract, the contract period is beyond the loan closing date. But there was an expectation that additional funding could be available from the Government for the completion of balance period of the contract. Also, there was mutual agreement to speed up the works to maximize the scope of the contract before the loan closure. Accordingly, it was able to fully complete the first stage of the contract i.e., Condition Assessment and Urgent Repairs of 8.3 Km of Force Mains by using special devices, which was most difficult and important part of the contract. The 2<sup>nd</sup> part of the contract was Condition Assessment of Gravity Sewers through CCTV and enable to complete part of work even though works had to suspend three months period due to non-availability of fuel and electricity.</p> | <p>Action should be taken to use assessment report by CMC.</p> |
| (c) | <p>According to the contract agreement signed by the Secretary to the Ministry with the consultancy firm, the consultancy firm is required to carry out detailed planning, construction beautification and project management. Nevertheless, according to the contract agreement signed with the M/S Larsen and Toubro on 04 May 2017, preparation of plans for the construction of pumping stations, renovations, laying high pressure pipes and gravity pipes for the second segment had been handed over to the contractor. Accordingly, it was observed that while making payments to the consultancy</p> | <p>No comment</p>   | <p>Study should be done by Executing Agency.</p>               |

firm for planning activities, payments were also made to the contractual company for that task, thus making double payments for the same purpose.

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| (d) | According to the contract agreement entered into with the consultancy firm, payments are made as per the time basis. Due to the delay and non-implementation of the contracts caused by the reasons such as the delay in the selection of construction contractors and release of lands, a fruitless payment had been made to the consultancy firm for the contract supervision. | No comment | Study should be done by Executing Agency. |
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- i.** Obtaining recommendations related to the quality testing of 59 kilometers of the existing sewer system.
  - ii.** Supervision of the contract related to the construction of partly completed Talakotuwa and Kalinga Mawatha pumping stations including the underground and pressure sewer network system, that have been partly completed over 22km, and 7km yet to be fully laid with pipes.
  - iii.** Supervision of the contract of the construction of wastewater treatment plant to be newly built in Wellawatta.
  - iv.** Supervision of the construction contract related to the laying of Kirula- Narahenpita sewer network system over 12.4 kilometers and two pumping stations.
  - v.** Supervision of the renovation of existing wastewater sewer network system in the Southern catchment area.