

## **Greater Colombo Wastewater Management Project - 2022**

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The audit of financial statements of the Greater Colombo Wastewater Management Project 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 2.09 of the Project Agreement No.2557 and No.2558 dated 18 December 2009 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 Project**

According to the Loan Agreements, 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 the 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 million 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 30 June 2023.

### **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 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 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 scepticism 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>
(a)	Section 05 of the Management Circular No.01/2019	The steering committee would meet at least once in two months, however only two 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 four Meeting of the Audit and Management Committees required to be held 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.
(c)	Section 2.2.7 and 07 of the Management Circular No.01/2019	The project had been extended by another 08 years, due to inefficiency. During the extended period Rs. 2.3 million had been paid as salary increments for 12 officers without appraisal of performance.	The inefficiency of the respective contractor greatly affected the extension of the project period. However it is not true that these delays are due to the inefficiency of staff.	Payment should be made according to the circular Instruction.

### 3. Physical Performance

#### 3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2022		Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
<b><u>Rehabilitation of main sewerage system</u></b>			Although the project was scheduled to commence on 9 April 2010 and to be completed on 30 June 2015, the closing date has been extended for 6 times until 30 June 2023.	(a) Weaknesses in project management resulting in delays in feasibility studies, environmental assessment, land acquisition and resettlement processes were affected.
Designing, construction, and Rehabilitation of wastewater pumping station and pumping mains.				
Pumping Stations				
Wanathamulla	100	99		
Maligawatta	100	77		
Borella	100	73		
Bambalapitiya	100	99		
Vystwyke	100	76		
Thimbirigasyaya	100	81		
CS3	100	99		
Slave Island	100	98		(b) Not receiving the expected support from the policy support group.
Pumping Mains				(c) Poor performance of the contractor.
Wanathamulla	100	70		
Vystwyke	100	70		
<b>Response of the Management</b>	Due to unavoidable reasons and contractual commitments, the contract was extended. The main reason for the delays of the contract is poor performance of the contractor.			
<b>Auditor's Recommendations</b>	The project should influence the contractor to complete the works promptly assuring the required level of quality.			

### 3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
<p>Under ICB Contract No. GCWMP/ADB/PS/01/ICB/Works/03/2013 for Design, Construction, Installation and Renovation of Wastewater Pumping Stations of Colombo Municipal Council. It had been agreed to supply mandatory spare parts worth €887,104, USD 937,976 and Rs.52.4 million. However as at 31 December 2022, mandatory spare parts worth €739,906, USD 777,736 and Rs.52.4 million should have been supplied.</p>	No comment	<p>Immediate action should be taken by the Project Office and the Colombo Municipal council regarding the stock of currently supplied spare parts and supplying the mandatory spare parts to be supplied further.</p>

### 3.3 Unutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
<p>Due to the inability to complete the construction of 04 pumping stations namely Vystwyke, Borella, Thimbirigasaya and Maligawatta, the machines and equipment brought in 2016 for those 04 pumping stations could not be installed in the pumping stations up to 31 December 2022.</p>	No comment	<p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p>

### 3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
<p>(a) Greater Colombo Wastewater Management Project - In terms of loan agreement No. 2557/2558, the project was scheduled to commence on 04 April 2010 and was to be completed on 30 June 2015 however the closing date of the project was extended upto 30 June 2023. Accordingly, the completion of the project was delayed by 96 months.</p>	<p>Due to unavoidable reasons and contractual commitments, the contract was extended.</p>	<p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p>
<p>(b) For the purpose of giving prompt solutions to the issues arising in the implementation of projects, a Policy Supporting Group consisting of the officials from the Colombo Municipal Council, the Ministry of Local Government and the Western Provincial Council was appointed since the year 2010 and a sum of Rs. 39.6 million was paid to those officials as salary as at 31 December 2022. However, the loan could not be used within the contracted timeline and consequently, a sum of Rs. 120.5 million was to be paid to the Asian Development Bank as at 31 December 2022 as commitment charges for the</p>	<p>Reasons related to delay of project completion are not under control of policy supporting group.</p>	<p>Should actively contribute to the achievement of Project objectives and evaluate their performance.</p>

unused loan balance. Accordingly, it was observed that an assistance from the aforesaid Policy Supporting Group was not received for the successful implementation of the project.

- (c) Despite the allocation of provisions to implement the project, construction of 03 pumping stations was abandoned. Nevertheless, the constructions of the Polwatta pumping station had been started under the local financing.
- The relevant Investigation should be done by the executing agency.

### 3.5 Observations made on site visits

#### Audit Issue

Due to the inability to complete the construction of 04 pumping stations namely Vystwyke, Borella, Thimbirigasaya and Maligawatta, it was observed that as a temporary solution, the waste water will have to be pumped under a By Pass method and thus the project will not be able to generate the expected benefits.

#### Management Response

No comment

#### Auditor's Recommendations

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

### 3.6 Matters pointed out in Previous Audit Reports which remained unresolved

#### Audit Issues

The financial management and accounting system which was introduced to drainage division worth Rs. 3.2 million had been idle since 2017.

#### Management Response

Action has been taken by the CMC to train new staff.

#### Auditor's Recommendation

Steps should be taken to use foreign investment effectively.

### 3.7 Issues related to the Environmental Matters

#### Audit Issue

The Construction of three pumping stations had been completed and handed over to the Colombo Municipal Council. During the Pre- commissioning testing of those pumping station on 24 November 2021, it was revealed that there were weakness in the Slave Island pumping house. Thereafter it was further observed that the main pipe system had been damage and It was further observed that the wastewater was being discharged to the Beira lake through an open canal, resulting an environmental damage.

#### Management Response

No comment

#### Auditor's Recommendations

To prevent environmental damage by carrying out quality construction.