

Greater Colombo Wastewater Management Project - 2023

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2023 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 SRI and 2558 SRI 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 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 2023 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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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

	Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
(a)	Social Security Contribution Levy Act No 05 of 2022	The provision had not been made for reimbursing the tax under this act, however an amount of Rs. 14 million had been paid to two Contractors during the year under review.	No Comment	Unauthorised payments should be recovered.
(c)	National Audit Act No 19 of 2018	Financial Statements should be submitted to Auditor General not later than three months after the close of each financial year. However Financial Statements had been submitted to Auditor Generals after 3 months' later.	No Comment	Financial Statements should be submitted on time.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2023		Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
	Rehabilitation of main sewerage system Designing, Construction, and Rehabilitation of Wastewater Pumping Station and Pumping Mains.			
Pumping Stations				
Maligawatta	100	77		
Borella	100	73		
Vystwyke	100	76		
Thimbirigasyaya	100	81		

Response of the Management	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.
Auditor's Recommendations	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
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 2023, mandatory spare parts worth €739,906, USD 777,736 and Rs.52.4 million had to be supplied.	As observed by the audit only the part of the spare parts items has been supplied and balance part have not been supplied due to dispute in the agreed conditions in the contract document. Action is being taken to resolve the said dispute. However, the spare parts are needed when the pumping station are in operation and therefore no effect to the intended benefits of the project due to delays in supplying of spare parts.	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.

3.3 Unutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
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 2023.	As contractor has purchased and supplied the machinery for the eight Pumping Stations in one lot, the uninstalled machinery of four Pumping Station is remained in stock. However, no effect to the employer by expiration of the warranty period of the machinery as contractor's warranty is provided for the installations.	Expedite action is required to taken to complete the activities of the Project before expiration of the Project Period.

3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Greater Colombo Wastewater Management Project - In terms of Loan Agreement No. 2557 SRI and 2558 SRI, 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 up to 30 June 2023. Accordingly, the completion of the project was delayed by 96 months.	Due to unavoidable circumstance and contractual commitments, one of the contracts of the project has to be extended which was the main reason for the extension of the project period. However, as no further extension was granted beyond 30.06.2023, action has been taken to complete the incomplete work of the contract by utilizing Domestic Funds	Expedite action is required to taken to complete the activities of the Project before expiration of the Project Period.

3.5 Observations made on site visits

Audit Issue	Management Response	Auditor's Recommendations
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.	It is true that Bypass pumping was required due to delays in completion of Pumping Stations. Action is being taken to replace new pumps to avoid the regular breakdowns.	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	Management Response	Auditor's Recommendation
The Financial Management and Accounting System which was introduced to Drainage Division valued at Rs. 3.2 million had been idle since 2017.	Action has been taken by the CMC to train new staff.	Steps should be taken to use foreign investment effectively.

3.7 Issues related to the Environmental Matters

Audit Issue	Management Response	Auditor's Recommendations
After completing of the constructions of three Pumping Stations, they were handed over to the Colombo Municipal Council and during the pre-commissioning testing done on 24 November 2021 at the Slave Island Pumping Station It was observed that the Force Main was damaged and the machines of the Pumping Station remained idle. It was further observed that the wastewater was being discharged to the Beira Lake through an open canal, resulting an environmental damage.	No comment	To prevent environmental damage by carrying out quality construction.