

Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-03 - 2023

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche-03 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 2.10 of Article II of the Project Agreement No. 3348 - SRI (SF) and 3349 - SRI (SF) 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

According to the Loan Agreements, then Ministry of Local Government and Provincial Council, 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 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

The accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2023 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
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		
(a) Provision of New Gravity Sewers, Force Mains and Pump Stations for Kirulapone catchment area.	100	70	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 three 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) Provide Sewerage Facilities to Kirula – Narahenpita Area	100	92 of pre contract 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 2023.	(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 2023.

(c) Repair of Defective sewers and upsizing of under – capacity sewers in Southern Catchment and Implementation.	100	75 of pre contract 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 2023.	Due to the least priority at the policy level and scope of the contract was not finalized at policy level.
(d) 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.	<p>(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.</p> <p>(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.</p>

Response of the Management 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 Matters in Contentious Nature

Audit Issue

Response of the Management

Auditor's Recommendation

Wastewater Treatment Plant is the main sub project under the Greater Colombo Water and Wastewater Management Improvement Investment Programme -3 which was allocated USD 44.37 million, Basically, the Contract of the Construction of Wastewater Treatment Plant was scheduled to be commenced on 21 June 2017 and scheduled to be completed on 14 December 2019. However, The Contract was awarded on 18 December 2020 after 30 months delay, and the agreement was signed with contractor on 21 October 2021. As per the Contract Agreement, land had to be handed over to the contractor within three Months for construction work. Due to the failure of Project Management to hand over the land up to 30 December 2022, the contract was terminated and Rs. 619 million was paid to the contractor as a termination charge and accounted as a non-current asset without developing any asset.

This expenditure has been incurred under foreign loan and it may be an issue if this is presented as a loss in the financial statements. So that it is presented under non-current asset of the Financial Statements.

However, the part that can be identified as losses will be written off in the future.

Action should be taken to write off the value as a loss.