

## **Kandy City Wastewater Management Project - 2019**

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The audit of the financial statements of the Kandy City Wastewater Management Project for the year ended 31 December 2019 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 4 (6) of Article III of the Loan Agreement No. SL-P 99 dated on 26 March 2010 entered into between Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comment and observation which I consider should be report to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, presently Ministry of Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas and thereby enhance the standard of living, health and well-being of the people in the area. The estimated total cost of the Project is amounted to Japan Yen 17,278 million equivalent to Rs.21,982 million and out of that Japan Yen 14,087 million equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency and the balance amount of Japan Yen 3,191 million equivalent to Rs. 4,060 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2022.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 02 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, 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 and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **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 Accounting Deficiencies

| Accounting Deficiencies<br>-----  | Impacts<br>-----  | Responses of the Management<br>-----   | Auditor's<br>Recommendation<br>-----  |
|---|---|--|---|
| (a) As per the financial statement of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2019 was Rs.11,945 million. However, as per the financial statement of the Project, the corresponding value of work-in-progress was Rs. 12,804 million. Even though the Project had prepared the reconciliation and identified the difference of Rs.859 million, no action had been taken by the Project to rectify the difference. | Overstatement of work-in-progress in the financial statement.                                       | Project has already take action to pass the correction journal entry and submitted to the Board for adjustment of accounts. In addition, the accrued bill value is taken into the final accounts of the project and the bills are taken into the Board's accounts after the Disbursement in 2020. It will be matched from 2020 board accounts. | Action Should be taken to rectify the difference in time.   |
| (b) The vehicles procured at a cost of Rs.16.44 million during the year under review had been shown on civil work instead of being separately shown as vehicles in the financial statements.  | Understatement of cost of the vehicle and overstatement of civil works in the financial statements. | Vehicles are debited to the work in progress account at the time of payment, and journal entries are prepared and submitted to the Board to be removed from the work in progress currently being added to the asset register and to be included in the fixed asset account.  | Need to be recognized in the non current assets based on different useful life times of the assets. |

## 2.2 Non - Compliance with Loan Agreement

| Reference to the Loan Agreement<br>----- | Audit Issue<br>-----  | Impact<br>-----  | Response of the Management<br>-----   | Auditor's Recommendation<br>-----                        |
|--|---|--|---|--|
| Loan Agreement SLP 99 schedule 02        | The local expenses such as hotel charges, cost of meals etc. aggregating Japanese Yen 5.74 million which equivalent to Rs. 9.64 million under the contract of design and construction of waste water treatment plant, main pump station, treated effluent disposal system, sludge drying beds spent by the Project had been reimbursed. | Violation of the condition of loan agreement adversely affect the Project performance. | The payment to the DAB member is in accordance with the contract and is set out in sub-section 20.2. Further, under the general terms and conditions of Article 6 (b) of the Dispute Adjudication Agreement, reasonable charges (Secretarial Services, Telephone, Courier, Telex, Travel and Support) should be paid to the DAB Member. | Need to comply with the condition of the loan agreement. |

### 3. Physical Performance

#### 3.1 Physical Progress of the activities of the Project

| Activities<br>-----                     | Physical Progress as at 31 December 2019<br>----- |                             | Impacts<br>-----   | Responses of the Management<br>----- | Auditor's Recommendation<br>-----   |
|---|---|-----------------------------|--|--------------------------------------|---|
|   | Expected Performance<br>-----                     | Actual Performance<br>----- |  |                                      |   |
| (a) Design and Construction of          |   |                             |  |                                      |   |
| -Trunk sewer network-open cut           | 6.23km  | 3.40km                      | Construction delay may adversely affect the project objectives.                      | Management Comments not received.    | Action should be taken to expedite the contract activities within the specified period of time. |
| -Trenchless                             | 2.87km  | 1.85km                      |  |                                      |   |
| -Branch sewer network-open cut          | 71.1km  | 57.38km                     |  |                                      |   |
| -Trenchless                             | 5.7km   | 0.82km                      |  |                                      |   |
| -Property sewer network-open cut        | 135km   | 125.32km                    |  |                                      |   |
| -Trenchless                             | 11.24km   | 0.99km                      |  |                                      |   |
| -Force main- open cut                   | 3.18km  | 1.90km                      |  |                                      |   |
| - Trenchless                            | 173m  | 17m                         |  |                                      |   |
| -Manhole pump station                   | 09 Nos  | 05 Nos                      |  |                                      |   |
| (b) Construction of property connection | 5,449   | 1,680                       | Delay in providing better sanitation facilities to the peoples living in Kandy city. | Management Comments not received.    | Action should be taken to expedite the contract activities within the specified period of time. |

### 3.2 Contract Administration

| Audit Issues<br>-----  | Impacts<br>-----  | Responses of the<br>Management<br>----- | Auditor's<br>Recommendation<br>-----   |
|--|---|---|--|
| (a) The contract of the design and construction of trunk sewers, branch sewers and Manhole pump station had been scheduled to completed 31 July 2019. However, due to poor performance of the contractor, the work of this contract has been continued even after 31 December 2019 without being obtained approval for extension of period of completion from the Project.   | Poor project management may adversely affect the project performance.                       | Management Comments not received.       | NWSDB is required to negotiate with the contractor and action should be taken to obtain approval for extension period. |
| (b) Although the activities of the Project had not completed, repayment of the loan had been commenced in 2020. As per the statements of Department of External Resources, a sum of Rs. 398.94 million had been made as repayment to the Lending Agency as at 31 March 2020 and commitment charges amounting to Rs. 153.72 million had been charged up to 31 December 2019 by the Lending Agency against the undisbursed loan balances, due to the delay of awarding contracts, poor performance of the contractors and poor Project management. | Possibility of incurring additional cost to the Government.                                 | Management Comments not received.       | As an implementing Agency, NWSDB should take action to expedite the Project Performance without delay.                 |
| (c) The ownership of the lands which is the construction of pump houses had been completed in Deiyannewela and ongoing construction of pump house near Mahamaya primary school had not been transferred to the National water supply and Drainage Board.   | Delay in transferring the ownership of the lands may adversely affect the Project activity. | Management Comments not received.       | Action should be taken by the NWSDB to get transfer the ownership of the lands without further delay.                  |

### 3.3 Extraneous Activities

| Audit Issue<br>-----  | Impact<br>-----   | Response of the Management<br>-----  | Auditor's Recommendation<br>-----                           |
|---|---|--|---|
| The Project had recruited Project Coordinating Officer even though the post had not been included in the carder approved by the Department of Management Service. However, the respective officer had not involved in any activities of the Project and no attendance record had been Maintained for the respective officer. In this regard, the Project office had incurred a sum of Rs.2.60 million as remuneration and Rs.2.53 million as lease rentals for the vehicle assigned to the respective officer as at 31 December 2019. | Administration cost of the Project increased unnecessarily. | Project coordinating officer has been appointed by a Board Decision from Head office. Since coordinating officer has been assigned to Ministry no attendance records has been maintained by the project. | Project should pay salaries only to approved Project staff. |

### 3.4 System and Controls

| Audit Issue<br>-----  | Impact<br>-----  | Response of the Management<br>----- | Auditor's Recommendation<br>-----                      |
|---|--|-------------------------------------|--|
| The transactions of the project during the year under review were not subjected to internal audit as per the financial regulation 133 and no an Internal Auditor had been recruited as required by the Management Audit circular No.02/2016 of June 2016. | Poor control over financial and operational activities of the Project may be adversely affect the Project performance. | Management Comments not received.   | Action should be taken to implement an internal Audit. |