

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 - 2020**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 for the year ended 31 December 2020 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 4.03 of Article IV of the Loan Agreement No. 3030 dated 03 June 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observation which I consider should be report to parliament appear in this report.

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

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According to the Loan Agreement, then Ministry of Local Government and Provincial Councils, presently State Ministry of Provincial Councils and Local Government Affairs is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agency of the Programme. The objectives of the Programme 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 Programme 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 Programme 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 Programme had been extended up to 31 December 2022.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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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 Programme's financial reporting process.

## **1.6 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 Deficiency

<b>Accounting Deficiency</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The Loan interest applicable to the programme had not been accurately identified and included to the financial statements as at 31 December 2020.	Action is being taken with the National Water Supply & Drainage Board and the Treasury to separate the interest cost on most appropriate manner.	The action is required to be taken to comply with these requirements.

### 2.2 Non-compliance with Rules and Regulations

<b>Reference to the Rules and Regulations</b>	<b>Non-compliance</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Section 9.3 of the Management Service Circular No.01/2019 of 05 March 2019	The steering committee would meet at least once in 2 months. However, two steering committee meeting only had been held during the year 2020.	Due to prevailed situation from March 2020, it was not possible to arrange meeting for such group by adhering health guide lines on prevention of Covid-19	Alternatively, online meetings should have been arranged.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2020		Delay/ Audit Issue	Reasons for delays
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		Expected physical performance percentage	Performance achieved percentage		
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(1)Support Design Supervision Institutional Development Consultants	of Support of Design of Institutional Development Consultants	100	55.03	Contract was awarded to SMEC International Private Ltd. company on 25th April 2016 and contract period had expired 25th April 2020. Although Rs.539 million had been allocated for this component Rs.441.6 million had been paid to contractor as at 31st December 2020, the contractor was unable to complete the contract with in approved contract period. As at 31st December 2020, even though 8 months had passed since end of contract agreement and action had not been taken to extend the period in the relevant agreement.  Although bidding process has started 2016, contract had not been awarded up to 31st December 2020.	Delays in the Procurement process, assignment of additional scope considering the national development in the city and poor supervision.

(2) Conditional Assessment of 97.2Km Sewers CCTV - Contract	Conditional Assessment of 97.2Km of Sewers CCTV -Contract	100	-	Although bidding process has started 2016, contract had not been awarded up to 31 December 2020.	Delays in procurement process
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**Response of the Management**

The delays occurred in the Procurement process of both Tranche 2 & 3 loans, assignment of additional scope considering the national development in the city and poor performance of the on-going contract package, Provision of New Gravity Sewers, Force Mains and Pump Stations for Kirulapone Catchment Area has caused the extension of the Consultancy Contract.

**Auditor’s Recommendations**

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

**3.2 Contract Administration**

**Audit Issue**

The procurement process of carrying out of surveys in wastewater cleaning by using CCTV and preparation of asset database of 108 kilometers of sewers lines had been scheduled to be started on 01 July 2016. However, the contract had not been awarded even as at 31 December 2020.

**Response of the Management**

The required additional funding is expected from the savings available under the Wellawatta Wastewater Treatment Plant contract.

**Auditor’s Recommendation**

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

### 3.3 Issues Related to Human Resources Management

Cadre Position	No of posts			Response of the Management	Auditor's Recommendation
	Approved	Actual As at 31 December 2020	No. of vacancies		
Construction Manager	02	01	01	It is agreed that the performance of the PMU has been impacted by the inadequate staffing.	Prompt actions are required to be taken to fill the vacancies with qualified staff.
Project Engineer	08	02	06		
Project Engineer (Training)	01	-	01		
Assistant Project Engineer	08	03	05		
<b>Total</b>	<b><u>19</u></b>	<b><u>06</u></b>	<b><u>13</u></b>		