

Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-03 - 2020

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-03 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 4.05 of Article IV of the Loan Agreement No. 3348 and Section 4.03 of Article IV of the Loan Agreement No. 3349 dated 11 August 2016 entered into between the Democratic Socialist Republic of Sri Lanka 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 Programme

According to the Loan Agreements, the Ministry of Local Government and Provincial Council, 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 Agencies of the Programme. The objectives of the Programme 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\$ 92.67 million equivalent to Rs. 13,471.16 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 20.16 million equivalent to Rs. 2,930.60 million is expected to be financed by the Government of Sri Lanka. The Programme had commenced its activities on 03 November 2016 and scheduled to be completed by 24 October 2022.

1.3 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

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 Accounting Deficiencies

No	Accounting Deficiency	Amount Rs.	Response of the Management	Auditor's Recommendations
(a)	The difference was observed between the amount shown in the financial statements and the treasury printout regarding the cumulative loan interest as at 31 December 2020.	81,166,834	Action is being taken with the NWSDB and the Treasury to separate the interest cost on most appropriate manner.	The action is required to be taken to identify the deference prior to submission of financial statement to audit.
(b)	Although the delay damages claimed by the contractor was required to be disclosed in the financial statements, in accordance with Sri Lanka Accounting Standards NO.37, it was not disclosed in the financial statements.	257,171,849	The contractor has right to make claims for any sum as they wish. But it does not always mean that employer is liable for all the claims.	The action is required to be taken to comply with these requirements.

2.2 Non-compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-Compliances	Response of the Management	Auditor's Recommendations
	-----	-----	-----	-----
(a)	Section 9.3 of the Management Service Circular No.01/2019 of 05 March 2019.	Although steering committee would meet at least once in 2 months, two steering committee meetings 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.	Alternatively, online meetings should have been arranged.
(b)	Paragraph No.4.2.3 of Management Service Circular No.01/2019 of 05 March 2019.	Salaries of support staff recruited from outside the public service, should be based on the initials step of the salary scales at the recruitment level of similar posts in the public service. However, the data entry operator had been recruited in 2011 based on senior level D scale instead of initial salary scale of MN1 - 2006	The appointment has been made giving this salary scale and payment has been made accordingly.	Need to comply with the rules and regulations

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2020		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.	Provision of new gravity sewers, Force mains and Pump stations for Kirulapone catchment area.	100	54	Delay has occurred due to the contractor's low physical progress, non-mobilization of resources and poor planning and delay in handing over the Thalakotuwa garden land to the contractor.	contractor's low physical progress, non-mobilization of resources and poor planning.
(b) Construction of Wellawatta Wastewater Treatment Plant	Construction of Wellawatta Wastewater Treatment Plant	100	75 of pre contractor stage	Delay has occurred due to the numerous clarifications received from the bidders and Asian Development Bank and one year delay observed between the ADB concurrence and the cabinet approval.	Delay in getting approval.
(c) Provide Sewerage facilities to Kirula – Narahenpita Area	Provide Sewerage facilities to Kirula – Narahenpita Area	100	75 of pre contractor stage	Delay has occurred due to the non – availability of lands for the construction of two pumping stations and	Non – availability of lands and delay in bidding process.

					this delay affected to the preparation of bidding documents. EIB concurrence for the bidding documents received only on 18 November 2020.	
(d) Repair of Defective sewers and upsizing of under – capacity sewers in southern catchment and Implementation.	Repair of Defective sewers and upsizing of under – capacity sewers in southern catchment and Implementation.	100	75 of pre contractor stage	Delay has occurred due to the least priority at the policy level and scope of the contract was not finalized at policy level. European Investment Bank concurrence for the bidding documents received only on 18 November 2020.	Least priority given at the policy level and scope of the contract was not finalized at policy level.	
(e) Constriction of 1200 mm concrete trunk sewer from polwatta Pumping Station to Bambalapitiya	Constriction of 1200mm concrete trunk sewer from polwatta Pumping Station to Bambalapitiya	100	Omitted	Contract was cancelled due to not having enough funds and the expected scope has been changed with the Marine city reclamation land programme.	Not having enough funds	
(f) Strength and institutional structure and capacity of service provider	(a) Set-up a wastewater unit within CMC. (b) Establish GIS based Asset Management System. (c) Strengthening CMC staff and institutional capacity.	100	29	Works had not been completed up to 31st December 2020	Poor planning and Least priority given at the policy level.	

(d) Awareness of wastewater tariff among the citizens and shared responsibility among men & women.

(e) Training and capacity building (drainage division of CMC)

Response of the Management

Contractor's non-mobilization of resources & poor planning have caused low physical progress & low financial disbursement in Contract of Provision of New Gravity Sewers, Force Mains and Construction of Pump Stations for Kirulapone Catchment Area. One year delay after obtaining the ADB concurrence occurred due to numerous reasons.

Auditor's Recommendations

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

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p><u>Construction of sewer network and 2 pumping stations for Kirulapana</u></p> <p>(i) Contract agreement was signed on 4th May 2017 and original date of completion is 04 May 2020. Two Lands are required for this contract to construct two pumping stations. However, Thalakotuwa Land was handed over to the contractor on 08 June 2020.</p> <p>(ii) However, the contractor has made a claim on the 14th October 2019 amount to Rs.257,171,849 to recover the damage due to delays caused by the non-availability of site.</p> <p>(iii) Due to lack of feasibility study and delays in detailed Design and bid documents process P.M.U had paid Rs.25,000,000 which is Rs.9,840,400 (60%) more than the chief valuer's valuation to purchase the land on 10th February 2020.</p>	<p>Considerable period was taken to remove the said three families.</p> <p>The contractor has right to make claims for any sum as they wish. But it is not always mean that employer is liable for all the claim.</p> <p>Reason for the purchase of land is not connected with delays in detail design or preparation of bid documents.</p>	<p>Expedite action is required to be taken to complete the activities of the project before expiration of the project period.</p>
(b)	<p><u>Construction of Wellawatta Wastewater treatment plant</u></p> <p>According to the overall project implementation plan the contract scheduled to be awarded on 2nd quarter of 2017. However, the contract was awarded on 18 December 2020.</p>	<p>It was taken more time than expected for the finalizing of bid document due to revision of CEA Guideline on disposal of treated wastewater to marine environment.</p>	<p>Expedite action is required to be taken to complete the activities of the project before expiration of the project period.</p>
(c)	<p><u>Provide sewerage facilities to Kirula Narahenpita Area.</u></p> <p>(i) According to the overall project implementation plan constructions should be completed on 2018, EIB concurrence for the bidding</p>	<p>Project has to make design changes many times in Kirula - Narahenpita Sewer</p>	<p>Expedite action is required to be taken to complete the activities of the</p>

documents received on 18th November 2020. Network due to non-availability of lands for the construction of two Pumping Stations. This was mainly resulted to delays in preparation of bid documents and delays in entire procurement process.

(ii) Design had been changed many times due to the non-availability of land for the two pumping stations

project before expiration of the project period.

Network due to non-availability of lands for the construction of two Pumping Stations. This was mainly resulted to delays in preparation of bid documents and delays in entire procurement process.

(d) **Construction of trunk sewer from Polwatta to Bambalapitiya.**

Construction of 1200 mm concrete trunk had been cancelled due to insufficient funds and the expected scope had been changed with the marine city reclamation land project.

This type of cost arises and cannot be avoided due to changes of the development policies time to time.

These costs should be minimized through proper project planning.

3.3 Underutilized Resources

Audit Issue

Response of the Management

Auditor's Recommendation

The general treasury has paid Rs.121,116,614 as commitment charges on the undisbursed loan balance of the OCR Loan from 15th May 2017 to 15th November 2020.

Cost of commitment charges unavoidable. It is agreed that additional cost has incurred due to delays in loan disbursement. However, the payment of commitment charges has not affected to limit the scope of work or to achieve the objective of the Project.

These costs should be minimized through proper project planning.

3.4 Issues related to the Environmental Matters

Audit Issue

Response of the Management

Auditor's Recommendation

The environment officer of the programme had been vacant from 22nd October 2018, and vacant position had not been filled till 31st December 2020.

The project has taken all the attempts to recruit a suitable person for the post and was not successful due to various reasons.

This requirement is a must as the activities of the project are environment sensitive. Therefore, action should be taken immediately to recruit an environment officers without further delay.

3.5 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		
Project Management Unit				It is true that non-filling of the vacancies of the project has adversely affected to the day today activities of the project.	Prompt actions are required to be taken to fill the 15 vacancies with qualified staff.
Deputy Project Director	02	01	01		
Project Engineer (Procurement)	01	-	01		
Project Engineer	09	02	07		
Environment Officer	01	-	01		
Project Secretary	02	01	01		
Assistant Project Engineer	08	03	05		
Management Assistant	05	03	02		
Construction Manager	02	01	01		
Total	<u>30</u>	<u>11</u>	<u>19</u>		