

Phase 2 Stage 1 Ratmalana/Moratuwa Wastewater Disposal Project - 2021

The audit of financial statements of the Phase 2 Stage 1 Ratmalana/Moratuwa Wastewater Disposal Project for the first accounting period ended 31 December 2021 was carried out under my direction in the pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 3.4.3.(j) of the Credit Facility Agreement No. CLK 1023 – 01 L of 18 February 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development. My comments and observation 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 Credit Facility Agreement of the Project, 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 are to improving access to the sewerage service to the residents of Rathmalana (95,000 inhabitants) and Moratuwa (167,000 inhabitants). The estimated total cost of the Project amounted to Euro 105.5 million equivalent to Rs. 21,682.36 million and out of that Euro 75 million equivalent to Rs. 15,414.00 million was agreed to be financed by the Agence Francaise De Development as a Loan. The balance of Euro 30.5 million equivalent to Rs.6,268.36 million required to be contributed by the Government of Sri Lanka. The Project commenced its activities on July 2016 and scheduled to be completed by December 2024.

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 2021 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 Auditors 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 the Project's internal control.
- 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. Physical Performance

2.1 Physical Progress of the Activities of the Project

Activities	Physical Progress as at 31 December 2021		Response of the Management	Auditor's Recommendation
	Expected	Actual		
(a) Construction of new pumping stations and modification to existing Pump stations and Wastewater treatment Plant.	Financial evaluation of the contract was scheduled to be done at the end of December 2021.	Financial evaluation had not been done even as at 15 May 2022.	TEC Document Evaluation Report has been submitted to Director (Procurement) of MWS for SCAPC approval on April 2022. SCAPC is to be reappointed due to current political instability.	Action should be taken to expedite the procurement process.
(b) Construction and supervision consultancy	Contract was scheduled to be awarded in 4 th Quarter in 2021.	Contract was not awarded even as at 15 May 2022.	Delayed due to Covid pandemic and obtaining AFD no-objection for RFP after incorporation of their comments. Since the intensive construction activities are not yet started, there is no effect to the progress.	Action should be taken to expedite the procurement process.
(c) Domestic properties connections	Bidding document of the contract was scheduled to be prepared by the second quarter in the year 2021.	Bidding document of the contract had not been prepared even as at 15 May 2022.	Before starting of providing Domestic Property connection activities, construction of network and pump stations needs to be completed. Bidding documents can be prepared while the construction works are going on. Therefore, no adverse effect to project objectives.	Action should be taken to expedite the procurement process.

2.2 Contract Administration

Audit Issue

Although the supervision consultancy contract of the Project should be awarded before commence the construction contract, it had not been awarded even as at 15 May 2022.

Response of the Management

At present Mobilization work and site investigation works under the pipe laying contract are in progress. Supervision Consultancy Contract is essentially required during intensive construction activities. Therefore, the delay in awarding Consultancy Contract has no effect to the progress of this contract.

Auditor's Recommendation

Action should be taken expedite the awarding of consultancy contract.

2.3 Underutilization of Resources

Audit Issue

It was revealed that Project had not utilized funds under the loan even after lapse of 02 year and 10 months from the date of signing the Loan Agreement. Therefore, commitment charges amounting to Rs.205.09 million had been charged up to 31 December 2021 by the Lending Agency against the undisbursed loan balance.

Response of the Management

Due to the public objections against selected most technically and financially feasible lands for pump houses, those had to change several times. Because of this reason design, BOQ quantities and design drawings were also had to revise accordingly. After the finalization of design and bidding documents, procurement works were commenced. These delays are beyond the control of project administration.

Auditor's Recommendation

NWSDB should take action to expedite the Project activities without delay.

2.4 System and Controls

No Audit Issues

Responses of the Management

Auditor's Recommendations

- (a) Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.
- (b) Physical verification of fixed assets had not been carried out during the year under review, as required by the Financial Regulation 756.

Internal Audit section carried out their Investigations. But not yet released the report & they responded to release their report recently.

Action should be taken to implement an internal Audit.

Physical verification of Fixed assets has not been carried out for the last year and take action to arrange for this year.

Action should be taken to implement physical verification of fixed assets.