

## **Greater Colombo Wastewater Management Project - 2021**

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The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2021 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 2.09 of the Project Agreement No.2557 and No.2558 dated 18 December 2009 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 Project**

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According to the Loan Agreements, then Ministry of Local Government and Provincial Councils, presently State Ministry of Provincial Councils and Local Government Affairs are the Executing Agency and the Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objectives of the Project are to improve the urban environment and public health condition of 1.5 million urban and sub urban residents in Greater Colombo area through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. The activities of the Project are implemented under Greater Colombo Wastewater Management components namely (a) Upgrading Sewerage infrastructure (b) Strengthening Institutional and Operational Capacity in asset management, financial management, operational performance monitoring, environmental regulatory compliance, Customer Service and proper sanitation Services. (C) Project Management and Institutional Support. As per the Loan Agreements, the estimated total cost of the Project was US\$ 110.24 million equivalent to Rs.12,597.11 million and out of that US\$ 94.37 million equivalent to Rs.10,783.65 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 15.87 equivalent to Rs. 1,813.46 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 09 April 2010 and scheduled to be completed by 31 December 2014. However, the date of completion of the activities of the Project 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 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**

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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 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**

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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 Project'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 scepticism 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
Section 9.3 of the Management Circular No.01/2019	The steering committee would meet at least once in two months, however four steering committee meeting only had been held during the year 2021.	It was very difficult to arrange a meeting by complying with regulations implement by the health authorities.	Alternatively online meeting should be arranged.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2021		Audit Issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Percentage	Percentage		
<b><u>Rehabilitation of main sewerage system</u></b>			The project which commenced on 9 April 2010 and was scheduled to be completed on 30 June 2015, was extended 4 times until 31 December 2021, however the physical progress of the project was very slow.	Weaknesses in project management resulting in delays in feasibility studies, environmental assessment, land acquisition and resettlement processes will be affected to increase project costs and unnecessary commitment charges.
Designing, construction, and Rehabilitation of wastewater pumping station and pumping mains.				
Pumping Stations				
Wanathamulla	100	97		
Maligawatta	100	76		
Borella	100	64		
Bambalapitiya	100	99		
Vystwyke	100	71		
Thimbirigasyaya	100	74		
CS3	100	99		
Slave Island	100	98		
Pumping Mains				
Wanathamulla	100	61		
Vystwyke	100	61		

**Response of the Management** Due to unavoidable reasons and contractual commitments, the contract was extended. The main reason for the delays of the contract is poor performance of the contractor.

**Auditor's Recommendations** Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	<b><u>Individual Consultants</u></b> It was stated that a maximum of 22 days should be worked for the payment of the advisory allowance, however when checking the payment voucher, It was observed that in case of non-attendance for a maximum of 22 days the full advisory allowance was paid. When checked the payment vouchers from January to November 2021, a total of Rs. 3.9 million had been paid for non-working days.	No over payment is made as stated.	Advisory allowance should be paid in accordance with the rules and regulations.
(b)	Three officers were appointed for the arbitration and no written evidence was presented to the audit as to how the officers were selected and the approval of the Secretary to the Ministry was obtained for the appointment. As at 31 December 2021, a total of Rs. 1.7 million has been paid to the three officers.	The authorities delegated to Project Director to act arbitration matters and the method of selection of experts to assist the State Counsellors of the Attorney General Department	Should get the proper approval before payment.

### 3.3 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The General Treasury has paid Rs. 122 million as commitment charges on the undisbursed loan balance of the OCR loan from 15 February 2010 to 15 August 2021.	There is some additional cost of commitment fee when projects are continued beyond the loan period.	This cost should be minimized through proper Project planning.
(b)	The financial management and accounting system which was introduced to drainage division worth of Rs.3.2million was idle since 2017.	Action has been taken by the CMC to train new staff.	Action must be taken to use foreign investment effectively.

### 3.4 Matters in Contentious Nature

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**Audit Issue**  
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In the year 2021 seven officers of the policy supporting group were paid Rs.2.5 million and one meeting were held. Although nearly 70 months had elapsed since the completion of the project by 31 December 2021. Rs.41.2 million had been paid to the policy supporting groups from the inception of the project as at 31 December 2021 the contribution of policy supporting group to the project was unable to evaluate due to non-submission of performance reports of policy supporting group.

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**Response of the Management**  
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Payment to the policy support group is made based on the appointment of the approved carder of the project.

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**Auditor's Recommendation**  
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The Group actively contribute to the achievement of Project objectives and evaluate their performance.

### 3.5 Issues Related to Human Resources Management

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**Audit Issue**  
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Although there were 16 vacancies in 11 positions that directly affect to the smooth operation of the project, the necessary recruitment had not been taken to fill the vacancies.

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**Response of the Management**  
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The applicants of the technical grades called for interviews and selection is completed

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**Auditor's Recommendation**  
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Prompt action is required to be taken to fill the 16 vacancies with qualified staff.