

## **Greater Colombo Wastewater Management Project - 2015**

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The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2015 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 27 of Schedule 5 of the Loan Agreements No. 2557 and No. 2558 dated 18 December 2009 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

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According to the Loan Agreements of the Greater Colombo Wastewater Management Project, then Ministry of Local Government and Provincial Councils, presently Ministry of Provincial Councils and Local Government is the Executing Agency and the Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objective of the Project is to improve the urban environment and public health for 1.5 million urban and sub urban residents in Greater Colombo through improved marine and inland water quality and resulting improvement in hygiene and sanitary condition. As per the Loan Agreements, the estimated total cost of the Project is US\$ 109.12 million equivalent to Rs.12,003.53 million and out of that US\$ 94.37 million equivalent to Rs.10,380.70 million was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 09 April 2010 and scheduled to be completed by 31 December 2014. However, the period of the Project had been extended up to 30 June 2017.

### **1.3 Responsibility of the Management for the Financial Statements**

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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.

### **1.4 Auditor' Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit

evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loans etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipments supplied under the Loans had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Loan Agreements had been complied with.

#### **1.5 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters describe in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustment arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provide had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (d) the Statements of Expenditure (SOE) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit reports, and
- (f) the financial covenants laid down in the Loan Agreements had been complied with.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Accounting Deficiencies**

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The following accounting deficiencies are observed in audit.

- (a) An advance amounting to Rs.1.23 million made during the year under review to procure Laboratory Equipment had been capitalized and shown under the non-current assets of the Project.
- (b) A sum of Rs.5.23 million paid during the year under review to the contractor engaged in construction of a building for the Environmental Laboratory had also been capitalized, even though the construction works of the building for the Laboratory had not been completed even as at 31 December 2015.

## 2.2.2 Non- Compliance with Laws, Rules and Regulations

The information relating to the payment of Value Added Tax of Rs.40.24 million made during the period from June 2014 to October 2015 to 04 contractors had not been submitted to the Commissioner General of Inland Revenue in accordance with the paragraph No. 5.4.12 of the Government Procurement Guideline and Section 21 of the Value Added Tax Act, No. 14 of 2002.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year 2015	Funds utilized			
				during the year 2015	as at 31 December 2015		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	94.37	10,380.70	2,778.98	19.87	2,778.98	36.98	4,878.00
GOSL	14.75	1,622.83	294.23	2.06	288.80	5.38	709.53
	<u>109.12</u>	<u>12,003.53</u>	<u>3,073.21</u>	<u>21.93</u>	<u>3,067.78</u>	<u>42.36</u>	<u>5,587.53</u>

According to the above mentioned information, it was revealed that only US\$ 42.36 million equivalent to Rs. 5,587.53 million representing 39 per cent had only been utilized as at 31 December 2015, out of the allocation of US\$ 109.12 million equivalent to Rs. 12,003.53 million even after lapse of 5 ½ years from the commencement of the activities of the Project. However, the utilization of entire allocation for the activities of the Project during the rest of the period of 1 ½ years of the Project was very remote, as there was no comprehensive implementation plan for the Project since the commencement of the activities of the Project.

### 3.2 Physical Progress

For the purpose of improving the hygiene and sanitary condition of inland water in Grater Colombo area, several activities on wastewater management such as rehabilitation of sewers, ocean outfall and pumping stations etc. had been carried out by the Project. However, the Project had not paid proper attention to identify the sources of environment pollution in Colombo Municipal area and address the parties who responsible thereon. Therefore, awareness

programms had to be focused on parties such as school students, citizens living in the shanties etc. and persons who visit regularly to the Colombo Municipal area from suburbs for employment and other purposes had not been adequately recognized as the parties to be educated on garbage management. In addition, instances of depositing of garbage at the manholes constructed by the Project and blocked the sewerage lines were observed during the site visits made by the auditors and effective methodologies had not been applied to dispose the garbage deposited at the manholes.

### 3.3 Contract Administration

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The following observations are made.

- (a) A contract on testing of the quality of sewerage lines of 125 kilometres and repairs of sewerage lines of 10 kilometres of the Colombo Municipal area had been awarded on 02 June 2014 and agreed to be completed before 20 December 2016. The following further matters were revealed in detailed audit carried out in this connection.
  - (i) The quality test carried out by the Engineers attached to the Colombo Municipal Council on 19 February 2016 had revealed that the compressive strength of clay pipes procured and laid for the purpose of sewerage lines had ranging from 33.44 Newton/mm to 64.46 Newton/mn below than the required strength of 75 Newton/mm. It was revealed that 1,020 of clay pipes with lower compressive strength had been laid.
  - (ii) According to the practice, a machine called “Silk Sucker” was required to be used to dispose the garbage deposited in the manholes effectively. However, the contractor had disposed the garbage manually and not used such a machine during the period of construction.
  - (iii) It was observed at the site visits made by the auditors that the tolerance level of sewerage lines were measured manually and kept records accordingly which was not an acceptable practice. However, the contractor had not used advanced technology to measure the tolerance level of laying of sewerage lines.
- (b) The Project had made an advance amounting to Rs.1.23 million to a outside party on 29 October 2015 to procure laboratory equipments and expected to be completed the contract within 03 months. However, the respective equipments had not been supplied even as at 30 April 2016.
- (c) The works under the constructions of 10 manholes and 225 mm pipe laying activities for the construction works of water line in Pelangasthuduwa had been eliminated from the scope of the Project due to delays in implementation of the activities of the Project.

- (d) The contract awarded on 13 January 2014 to upgrade Gravity Sewer Network at Wanathamulla which expected to be completed before 13 January 2015, as per the Paragraph 8.2 of the Contract Agreement, such upgrade works had not been completed even as at 31 December 2015. Further, as per the Paragraph 8.4 and 20.1 of the Contract Agreement, the action had not been taken to extend the period of the contract.
  
- (e) Eventhough the construction works of Environmental Laboratory in Madampitiya expected to be completed on 01 May 2015, the respective contract had not been completed even as at 02 March 2016 with delays in 10 months. However, no action had been taken by the Project to expedite the construction works.