

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 (Loan No 2947 SRI and 2948 SRI (SF) - 2015

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 01 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 4.05 of Article IV of the Loan Agreement No 2947-SRI and Section 4.03 of Article IV of the Loan Agreement No 2948 – SRI (SF) dated 28 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and Asian Development Bank along with Section 2.10 of the Project Agreement dated 28 June 2013 entered into between the National Water Supply and Drainage Board and Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Programme, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Programme. The objectives of the Programme are to improve urban environment and quality of life for the residents of Greater Colombo area. The Programme is expected to (a) rehabilitate and expand water supply system and reduced non-revenue water in Colombo city (b) improve wastewater service in Greater Colombo (c) strengthen institutional structure and capacity of service providers and manage (d) implement investment programs. As per the Loan Agreements, the estimated total cost of the Programme amounted to US\$ 112 million equivalent to Rs. 14,784 million and out of that US\$ 84 million equivalent to Rs. 11,088 million or 75 per cent was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 28 million equivalent to Rs.3,696 million or 25 per cent was expected to be contributed by the Government of Sri Lanka. The Programme commenced its activities on 28 June 2013 and scheduled to be completed by 31 December 2016.

1.3 Responsibility of the Management for the Financial Statements

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 as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

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 judgment, 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 management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identifications of the purchases made out of the Loans.
- (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 Programme 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in Loan Agreements.
- (f) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (g) Whether the funds, materials and equipments supplied under the Loans had been utilized for the purposes of the Programme.
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (j) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the financial covenants laid down in the Loan Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

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

2. Financial Statements

2.1 Opinion

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 adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Programme 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 Programme as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided 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 Programme 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 (SOEs) 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 report, and
- (f) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs 2.45 million spent by the Programme on behalf of the other project called Grater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 had been accounted under civil work – in - progress instead of being accounted as the amount recoverable from other projects. In addition, advances amounting to Rs. 10 million made on acquisition of land at Pamankada for the above mentioned Project had also shown under the supplies

advances made by this Project. As a result, the balances recoverable from other donor funded projects shown in the Statement of Financial Position had been understated by Rs 12.45 million.

- (b) The interest of US\$ 14,692 and US\$ 268,340 charged by Asian Development Bank under the Loan Nos. 2947 SRI and 2948 SRI (SF) respectively had not been brought to account for the year under review.

2.2.2 Non – Compliances with Laws, Rules and Regulations

According to the Financial Regulation 133 and Management Audit Circular No. 05 of July 2010, the activities of the Programme had not been subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board.

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 under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	84	11,088	1,350	10.31	1,353	17.49	2,285
GOSL	28	3,696	-	6.20	866	7.38	1,021
Total	<u>112</u>	<u>14,784</u>	<u>1,350</u>	<u>16.51</u>	<u>2,219</u>	<u>24.87</u>	<u>3,306</u>

The following observations are made.

- (a) To ensure the achievement of the Programme objectives using allocated resources within scheduled time period, there should be a comprehensive detailed action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc, covering the entire Programme period, such plan had not been prepared and implemented by the Programme even after lapse of 02 1/2 years of the commencement of the activities of the Programme.

- (b) Although no funds had been allocated in the Budget Estimate for the year 2015 for the contribution of the Government of Sri Lanka, a sum of Rs. 866 million had been spent during the year under review to implement the activities of the Programme, out of the proceeds received from the Treasury Bond issued on behalf of the National Water Supply and Drainage Board.

3.2 Physical Progress

According to the progress report furnished by the Programme, the overall physical and financial progress of the Programme of 6.45 per cent and 21.68 per cent respectively at end of the year under review was remained behind the targets. The details of the physical progress on the activities implemented by the Programme is given below.

Programme Activities -----	Percentage of Physical Progress as at 31 December 2015 -----	
	Target	Actual
Rehabilitation of system for Non Revenue Water reduction in Colombo- North	21	8
Rehabilitation of system for Non Revenue Water reduction in Colombo- East	4	2
Supply installation and commission of System Input Volume Meter	10	5
Supply Installation and commissioning of Auto Meter Reader Meter and supply, delivery and installation of equipment for Information Technology	15	12
Supply of leakage detection and all other related equipment, and installation	100	30

According to the information received on the physical progress of the Programme, action had not been taken by the Programme to initiate the activities on construction of office buildings at Ellie House (Power House) at Maligakanda, consultancy works for Non Revenue Water Management and public awareness campaigns etc, during the year under review. According to the time bound action plan of the review mission report of 20 August 2015, the activities on public awareness and media campaign and mobilization of Consultant for capacity building of water user communities of the Programme were scheduled to be completed by 30 October 2015.

3.3 Contract Administration

The contract for the supply and installation of leakage detection and related equipment and installation awarded on 29 May 2014 to a foreign company at a cost of Rs. 16.16 million had been terminated by mutual agreement with the contractor. The Programme had taken action to procure part of the respective equipment at cost of Rs. 10.62 million from local market through the local representative of the above mentioned company without applying a

competitive bidding process and without a contract agreement. Further, a Memorandum of Understanding had been signed on 26 October 2015 with the above mentioned local representative for warranty and maintenance of the equipment. However, the legality of the Memorandum of Understanding was remained questionable in audit, as a result of no positions of the authorized officers signed in the Memorandum of Understanding had been mentioned and the official seal of the Company and the Programme placed, thereon.

3.4 **Matters in contentions Nature**

The following observations are made.

- (a) Although the Programme is scheduled to be completed by 31 December 2016, contracts for rehabilitation of system for reduction of Non Revenue Water in Colombo North and Colombo East had been awarded on 30 October 2014 and 12 March 2015 respectively and agreed to be completed on 05 July 2018 and 13 July 2019 respectively. Thus, it indicated that the date of completion of the contracts under the Programme had been decided without considering the date of completion of the Programme.
- (b) It was observed that rentals aggregating Rs. 1.68 million had been continuously paid during the year under review for a office building, even after other building for the Project Monitoring Unit obtained on rent basis since 30 October 2014 at a monthly rental of Rs. 600,000.
- (c) It was observed that, a sum of Rs. 22.29 million had been paid as rentals for 06 motor vehicles hired during the year under review whilst 06 other motor vehicles procured by the Programme had been released for use to the National Water Supply and Drainage Board. Further, the computers and computer accessories procured at a cost of Rs. 2.08 million by the Programme during the year under review had been released for the use of the National Water Supply and Drainage Board.