

Greater Colombo Water Rehabilitation Project - 2018

The audit of financial statements of the Greater Colombo Water Rehabilitation Project for the year ended 31 December 2018 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 4.03(a) of Article IV of the Subsidiary Loan Agreement No: SL-P 90 dated 03 September 2008 entered between the Democratic Socialist Republic of Sri Lanka and the National Water Supply and Drainage Board. This Project is implemented under the Loan Agreement No: SL-P 90 dated 28 March 2007 entered between the Japan Bank for International Cooperation, presently known as Japan International Cooperation Agency and the Government of Sri Lanka. My comment and observation which consider should be reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Urban Development, Water Supply and Housing Facilities 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 rehabilitate and enhance the water supply in the city of Colombo and Kotikawatta – Mulleriyawa area by constructing a new office building complex and a new reservoir at Maligakanda, constructing a reservoir at Elie House, improving water supply system at Kotikawatta and Mulleriyawa and providing water connections in selected tenant gardens in Colombo. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 5,359 million equivalent to Rs. 4,785 million and out of that Japan Yen 3,975 million equivalent to Rs. 3,549 million was agreed to be provided by the Japan International Cooperation Agency and the balance amount of Japan Yen 1,384 million equivalent to Rs. 1,236 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 27 November 2007 and scheduled to be completed by January 2012. Subsequently, the period of the Project had been extended up to 20 June 2017.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 Deficiency

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendation
According to the financial statements of the Project, the disbursements amounting to Japan Yen 3,138 million equivalent to Rs.4,152 million had been made as at 31 December 2018. However, according to the records of the Department of External Resources, the disbursements made for the Project could not be recognized separately and shown disbursements aggregating Japan Yen 13,231 million as at that date, amalgamating with the disbursements made for other 03 donor funded projects.	Un reconciled balances	Total allocated amount for the Loan No. SLP 90 was Japan Yen 13,231 million and out of that Japan Yen 3,975 million allocated to this Project and spent Japan Yen 3,138 million. Saving utilized by other three Project.	Need to reconcile the balances and disclose in the financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Description	Physical performance as at 31 December 2018		Impact	Comment of the Management	Auditor's Recommendation
	Expected	Achieved			
Construction of Maligakanda office building	31 May 2011	The works completed in 2015. However, the Project had constructed additional building at cost Rs. 18 million.	Increase of the cost of the Project unnecessarily	Not comments received.	Need to adhere with the scope of the works stipulated in the Project Agreement use the funds accordingly.
Water Supply enhancement in Kotikawaththa – Mulleriyawa					
- Construction of pumping station at Ambatale		Not done	The objective of the Project not achieved	-Do -	Need to attend to the works scheduled in the Action Plans of the Project in order to provide facilities to the stake holders.
- Construction of Gothatuwa ground reservoir and pumping station					

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>It was observed that the period of the Project had been extended twice up to 20 June 2017, due to delays in completion of the activities of the Project. Further, it was observed that a sum of Rs.346.59 million had been transferred to a private Bank Account of the contractor after being closure of the Loan on 20 June 2015 to meet the cost on completion of balance works of the construction. However, the approval from the External Resource Department had not been obtained thereon. As a result, the construction works had been implemented by the contractor without considering the scope of the works of the Project determined at the initial stages. Further, monthly bank statement to be submitted to the Project by the contractor with the report on payments made had not been submitted.</p>	<p>Weaken controls over the Project monitoring activities and financial management.</p>	<p>The Project had signed an agreement with contractor for the balance works, due to expire of SLP 90 Loan on 20 June 2015 as an amendment to the contract entered. The said contracts submitted to the Japan International Cooperation Agency For concurrence and approval by the Project Director through External Resource Department and through Line Ministry.</p>	<p>The mechanism for monitoring of the activities the Project need to be strengthen to avoid wastages and misuses.</p>

3.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>An office building which was not included in the initial work plans had been constructed by the Project at a cost of Rs. 162.41 million in a land procured on lease basis from the Divisional Secretarial of Kollonnawa and the</p>	<p>Fruitless expenditure</p>	<p>Agreed. The Project had paid final payment to process the lease agreement. Eventhough the construction of office building in Kolonnawa was not included in the initial work plan of the Project,</p>	<p>The requirements needed to be identified at the early stages as enable to utilize the borrowed funds effectively.</p>

lease rentals aggregating Rs. 5.17 million paid up to 31 December 2018 without entering into a lease agreement. Further, another office building which was not also included in the initial work plans had also been constructed by the Project at a cost of Rs. 18 million at Maligakanda in a land procured on lease basis from the Colombo Municipal Council in 2009, without entering into a lease agreement. The Project had initially paid a ground rent of Rs. 151.50 million. It was observed that the respective building had been allowed to use for the staff of the Colombo Municipal Council since 2015.

the National Water Supply and Drainage Board subsequently taken action to obtained the concurrence of the Lending Agency through the Department of External Resources.

3.4 Matters pointed out in previous Audit Reports which remained unresolved

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The refundable deposits valued at Rs. 11.9 million placed at the Provincial Road Development Authority in 2013 for road reinstatement works had not been recovered even as at 31 December 2018, even though the validity period of refundable deposits was expired.	Funds mismanaged.	The National Water Supply and Drainage Board is in processing to recover the deposits amounting to Rs. 11.9 million placed at the Provincial Road Development Authority in 2013 for road reinstatement works. Recovery was delayed, due to misplaced of original receipt.	Need to take early action to recover the dues.

3.5 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The Register of Fixed Assets had not been maintained by the Project in updated manner, as required by Treasury Circular No. 842 of 19 December 1978 of the Ministry of Finance and Planning.	Possibility to misuse of assets and facing difficulties in handing over of assets at the end of the period of the Project.	The Project had maintained Fixed Assets Register and carried out verifications up to the year of 2014 Thereafter, timely updating of the Register was delayed. At present, all of the available assets had been handed over to the various sections of the National Water Supply and Drainage Board.	Need to recognize the assets procured by Project update the Fixed Assets Register.