

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 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 4.05 of Article IV of the Loan Agreement No. 3348 and Section 4.03 of Article IV of the Loan Agreement No. 3349 – SRI (SF) of 11 August 2016 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank along with the Section 2.10 of the Project Agreement dated 11 August 2016 entered between the National Water Supply and Drainage Board and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3, then Ministry of City Planning and Water Supply, presently the Ministry of City Planning, Water Supply and Higher Education is the Executing Agency of the programme and the National Water Supply and Drainage Board is the Implementing Agency of the Programme. The objective of the Programme is to improve system efficiency and financial sustainability of water supply and wastewater services in the Greater Colombo area. As per the Loan Agreements, the estimated total cost of the Programme amounted to US\$ 228.02 million equivalent to Rs. 29,642.60 million and out of that US\$ 123 million equivalent to Rs.15,990 million was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank whilst US\$ 5 million equivalent to Rs. 650 million was agreed to be financed by Special Funds Resources of Asian Development Fund. In addition, US\$ 59.56 million equivalent to Rs. 7,742.80 million was agreed to be financed by the European Investment Bank. The balance amount of US\$ 40.46 million equivalent to Rs. 5,259.80 million was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Programme, a sum of US\$ 55.63 million equivalent to Rs. 7,231.90 million had been allocated to implement the activities to be carried out by the National Water Supply and Drainage Board and US\$ 172.39 million equivalent to Rs. 22,410.70 million had been allocated for the activities of the expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Programme implemented by the National Water Supply and Drainage Board. The Programme commenced its activities on 03 November 2016 and scheduled to be completed by 30 June 2020.

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 Programme as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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.

In preparing the financial statements, management is responsible for assessing the Programme 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 Programme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Programme'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 Programme.

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 Programme.
- 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 Deficiencies

Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendation
The commitment charges and interest aggregating US\$ 501,992 equivalent to Rs. 81.17 million recovered by the Lending Agency had not been segregated from the Greater Colombo Water and Wastewater Management Improvement Programme - Part- II implemented by the Colombo Municipal Council and brought to account.	81.17	Understatement of Interest and commitment charges.	As per the instructions received from the Finance Division of the National Water Supply and Drainage Board, interest and commitment charges had not been accounted in PMU books. Therefore, interest and commitment charges are disclosed in the notes to the accounts in respective project financial statements.	The costs should be segregated and brought to account as enable to show the amount of the Loan utilized at the end of the year under review.

3. Physical Performance

3.1 Physical progress of the activities of the Programme

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Implementing Agency of the Programme had made a request in 2016 to allocate extra funds through an additional financing arrangement to fill the financing gap for the rehabilitation and expansion works under the previous Programmes of Greater Colombo Water and Wastewater Management Improvement Investment Programmes - Project 01 and Project 02, eventhough the activities of the respective Programmes had shown slow progress of 36.25 per cent and 8.41 per cent respectively at that time. However, the physical progress of the activities implemented by the said Projects had remained behind the targets even up to 31 December 2018 and as a result, the allocation of US\$ 35 million equivalent to Rs.4,550 million made under the additional financing arrangements had not been utilized for the intended purposes.	Possibility to underutilization of allocation of the proceeds of the Loan and incurring commitment charges thereon.	Not commented	Need to determine the real need of the foreign fund and preparation of Disbursement Plan thereon.

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
It was observed that a Comprehensive Action Plan had not been prepared by the Programme to achieve the its objectives in timely manner. However, 04 contracts for consultancy services and 13 work contracts had been awarded by the Programme during the year under review at	Additional costs on implementation of activities of the Project	The consultancy packages were decided to outsourced considering the in-house capacities and facilities within National Water Supply and Drainage Board and the availability of time.	Possibility of use in-house resources is needed to be considered in priority base.

a cost of US\$ 405,794 equivalent to 64.45 million and US\$ 112,867 equivalent to Rs. 17.36 million respectively. Further, it was observed that the respective contracts for consultancy services had been awarded to private institutions to carry out Hydraulic Modeling, Water Foot Print, Environmental Safeguard and Social Safeguard for the purpose of identifying and preparatory works of the future sub-projects, without considering the expert knowledge and experiences possessed with the National Water Supply and Drainage Board on providing similar services on pipe bone water supply in the country.