

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 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.3029-SRI and Section 4.03 of Article IV of the Loan Agreement No.3030-SRI (SF) of 03 June 2014 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank and Chapter V of the Project Administration Manual. 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

According to the Loan Agreements, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning Water Supply and Higher Education is the Executing Agency and National Water Supply and Drainage Board is the Implementing Agency of the Programme. The objective of the Programme is to improve 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\$ 118 million equivalent to Rs.15,340 million and out of that US\$ 70 million equivalent to Rs.9,100 million was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank and US\$ 18 million equivalent to Rs. 2,340 million was agreed to be financed by the Asian Development Fund. The balance amount of US\$ 30 million equivalent to Rs. 3,900 million was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Programme, allocation of US\$ 107.05 million equivalent to Rs. 13,917 million had been made for the activities of the Programme, expected to be carried out by the National Water Supply and Drainage Board whilst US\$ 10.95 million equivalent to Rs. 1,423 million had been allocated for the activities of the Programme 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 had commenced its activities on 03 September 2014 and scheduled to be completed by 30 June 2019.

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 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 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 Programme 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 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 Deficiencies

	Accounting Deficiency	Impact	Management Comments	Audit Recommendation
(a)	The interest and commitment charges aggregating US\$ 997,059 equivalent to Rs.157.58 million recovered by the Lending Agency from this Programme and other Project called Greater Colombo Water and Wastewater Management Improvement Investment Programme-Tranche 02 implemented by the Colombo Municipal Council had not been segregated and brought to account.	Understatement of Interest and commitment charges	As instructed by the National Water Supply and Drainage Board, interest and commitment charges had been disclosed as a note to the financial statement instead of being accounted. Further, there is no proper mechanism developed by the Department of Treasury Operation to segregate the interest and commitment charges.	Proper mechanism should be developed with the agreement of the General Treasury. The respective costs should be segregated and brought to account as enable to show the amount of loan utilized at the end of the year under review.
(b)	The direct payments of US\$ 27,340 equivalent to Rs.4.92 million made by the Lending Agency had not been brought to the financial statement.	Understatement of work-in-progress and proceeds of Loan received.	Action will be taken to rectify the error.	Need to reconcile with the information received from the Lending Agency.
(c)	Value Added Tax aggregating Rs.182.41 million paid up to 31 December 2017 had been set off against the contribution received from the Government of Sri Lanka.	Understatement of the contribution received from the Government.	Not commented.	The total contribution from the Government of Sri Lanka is required to be shown in the financial statements as enable to reconcile with the record of the General Treasury.

- | | | |
|--|---|---|
| <p>(d) Total disbursements amounting to Rs.215.39 million made by the Programme as at balances 31 December 2018 shown in the reports of the Department of External Resources was not agreed with the corresponding value of amounting to Rs.217.14 million shown in the financial statements of the Programme.</p> | <p>Due to the time taken to in update the Treasury reports, the records of the Project Monitoring Unit had been updated by using the prevailing exchange rates.</p> | <p>Need to reconcile the available figures at the Project Monitoring Unit with information of General Treasury periodically before preparation of financial statements.</p> |
|--|---|---|

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Impact	Response of the Management	Auditor's Recommendation
<p>(a) According to the General Conditions of the Contract, the certified bill required to be settled within 56 days. However, contractor had made claims of Rs.19.67 million and US\$ 78,934 as additional financial charges, due to delay of settlements of bills as at 31 December 2018.</p>	<p>Weaken financial management.</p>	<p>Not commented</p>	<p>Need to develop a mechanism to settle the bills on due dates.</p>
<p>(b) The formal contract agreement on construction of buildings for the hostel and canteen for the Training Centre at Thalawala had been signed by the Chairman of National Water Supply and Drainage Board contrary to the provisions made in the paragraph 8.9.3 of the Government Procurement Guidelines.</p>	<p>Legality of the documents signed would be questionable.</p>	<p>-Do-</p>	<p>The formal agreements of the contracts valued at Rs.500 million or more is needed to be signed by the Secretary to the Line Ministry.</p>

3. Physical Performance

3.1 Physical progress of the activities of the Programme

The activities of the Project were implemented under the components of system rehabilitation for the reduction of non-revenue water in Southern and Western regions of the City of Colombo, improvements and construction works of office buildings of Area Engineer offices at Maharagama and Pamankada, renovation works of Central Training Centre, civil works of proposed pump house at Ellihouse reservoir premises etc.,. The following observations are made in this regards.

Audit Issue	Impact	Management Response	Audit Recommendation
The contract for system rehabilitation for non-revenue water reduction in the Southern region of City of Colombo awarded on 10 January 2017 and scheduled to be completed by June 2021 by laying of 206,166 metres of pipes and providing water supply connections to 33,236 house holds in 23 District Metering Areas had shown slow progress as at 31 December 2018. Further, the works under the contract for system rehabilitation for non-revenue water reduction in the Western region of the City of Colombo was scheduled to be completed on 23 December 2021 and only 29,993 metres of pipe laying works, out of 117,915 metres of such works and 36 service transfers, out of 29,343 service transfers in 18 District Metering Areas of Colombo Western region had been completed as at 31 December 2018. The time taken to receive the approvals from the Colombo Municipal Council and Road Development Authority for road works, use of manual labour instead of machineries and unexpected ground utilities found etc had caused delays on above mentioned works. Therefore, only 32,352 metres of pipe laying works had been completed and provided	Possible delays in completion of the contracts	Action had been taken to expedite the works under the contracts.	Need to make influences to the contractors to complete the works on time and strengthen the monitoring mechanism thereon.

water supply connection to 1,346 households in Colombo Southern region as at 31 December 2018. Further, the pipe laying works of 99,021 metres for 11 District Metering Areas Colombo Southern region and pipe laying works of 5,139 metres in a District Metering Areas of Colombo Western region had not been commenced even up to 15 May 2019, due to priorities given to the works in other District Metering Areas.

3.2 Underutilized Resources

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) Out of total Allocation of US\$ 79.95 million equivalent to Rs.10,394 million made by the Lending Agency, only a sum of US\$ 18.45 million equivalent to Rs.4,053.51 million representing 23.07 percent had only been utilized as at 31 December 2018, after lapse of 54 months out of the total duration of 60 months of the period of Project.	Probable recovering of the commitment charges.	The major contracts for the period of 04 year had been commenced in 2017 due to the delays in procurement process. Hence, the disbursement thereon will be extended up to 2021.	Action should be taken to expedite the works and need to monitor the works of contractors closely.
(b) An advance of Rs.10 million had been made by the Project on 02 September 2015 to the Urban Development Authority to acquire a land. Subsequently, the proposed land had been transferred to the Colombo Municipal Council by August 2017 without considering the initial advance made. However, action had not been taken to recover the advance made even up to 30 April 2019.	Project funds had become a fruitless expenditure over 3 years.	Not commented.	Immediate action should be taken to recover the advance with reasonable interest.