

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 - 2019

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 for the year ended 31 December 2019 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 2.10 (a) of Article II of the Project Agreement No.3030-SRI(SF) dated 03 June 2014 entered in to between the National Water Supply and Drainage Board and Asian Development Bank. 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 Agreement, then Ministry of Water Supply and Drainage, presently the Ministry Water Supply is the Executing Agency and National Water Supply and Drainage Board is the Implementing Agency of the Project. The objective of the Project is to improve efficiency and financial sustainability of water supply and wastewater services in the Greater Colombo area. The activities of the Project are implemented under 08 components namely (I) System Rehabilitation for Non-Revenue Water reduction in Southern part of the Colombo City, (II) System Rehabilitation for Non-Revenue Water Reduction in Western part of the Colombo City, (III) Construction of upper two floor of the existing Area Engineer office Maharagama, (IV) Construction of office buildings for Area Engineer office Pamankada, (V) Renovation of Central Training Centre, (VI) Civil works for proposed pump house at Elli house reservoir premises, (VII) Mechanical and electrical works for purposed pump house at Ellie house reservoir premises and (VIII) capacity building of communities with consultation and participation activities for Colombo city. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 118 million equivalent to Rs.15,340 million and out of that US\$ 70 million equivalent to Rs.9,100 million or 59.3 per cent of the total estimated cost of the Project 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 or 15.3 per cent of the total estimated cost of the Project was agreed to be financed by the Asian Development Fund. The balance amount of US\$ 30 million equivalents to Rs. 3,900 million or 25.4 per cent was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Project, allocation of US\$ 107.05 million equivalent to Rs. 13,917 million had been made for the activities of the Project 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 Project expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Project implemented by the National Water Supply and Drainage Board. The Project had commenced its activities on 03 September 2014 and scheduled to be completed by 30 June 2019. However, the date of completion of the activities of the Project had been extended up to 15 October 2022.

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-Project 02 as at 31 December 2019 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 this 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 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 Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Difference of Rs.6.44 million had been observed between the balance of direct payments and replenishments shown in the report of the Department of External Recourses and balance shown in the financial statements for the year under review.	6.44	Overstatement of disbursements shown in the financial statements.	<p>Direct payment of the project are updated based on the report of the Department of External Resources (814 report). However there is a considerable time gap of updating the report especially at the year end. In this year also 814 report was available to view only at the end of February 2020. Since project cannot wait until such time to finalize the financial statements, dollar transactions at the year-end were updated based on the exchange rate at the year-end date. Under or over adjustment due to the rate variation are taken into the accounts in the subsequent year considering the actual amounts reported in 814 report.</p> <p>Auditors identified difference mentioned here is due to that reason. Project cannot avoid such adjustments unless otherwise ERD issues the 814 report promptly.</p>	Reconciliation should be made with Debt recording management system (DRMS) report.

<p>(b) Interest and commitment charges aggregating Rs.376.74 million equivalents to US\$ 2.31 million had been charged from the proceeds of the loan of the Programme- Project 02 implemented by the National Water Supply Drainage Board and Colombo Municipal Council up to 31 December 2019. However, it had not been segregated among the Implementing Agencies separately and brought to the financial statements for the period under review. As a result, proceeds of the loan had been understated by similar amount.</p>	376.74	<p>Understatement of loan proceeds, Interest and commitment charges.</p>	<p>Project has not been accounted interest and commitment charges as per the instructions of Additional GM (Finance) (<i>Already provided along with the response for draft audit report</i>). However interest and commitment charges have been disclosed in the Project Financial Statements, Notes to the Accounts under the Note No. 17</p>	<p>The respective cost should be segregated and account accordingly.</p>
<p>(c) Mobilization advance amounting to Rs. 30.26 million and retention money amounting to Rs.23.92 million recovered from the interim payment certificates submitted by the contractor during the year under review had not been shown in the financial statements. As a result, work-in-progress of the Project had been understated by similar amounts.</p>	54.18	<p>Understatement of work- in progress.</p>	<p>These amounts are related to the year- end accounting for contractors' bills payable. Based on auditors' recommendation, we will identify the mobilization advance and retention amounts when the year-end payable amounts are accounting in the future.</p>	<p>Corrective actions should be taken to rectify the deficiency.</p>
<p>(d) Twenty computers valued at Rs.4.52 million transferred to the regional support centres had been shown under the work-in-progress instead of being shown under the accounts of asset transferred to the National Water Supply and Drainage Board.</p>	4.52	<p>Overstatement of work in progress and understatement of asset transferred to the National Water Supply and drainage Board.</p>	<p>Since the particular RSCs have not yet capitalized the items, project has shown these values under the WIP. Project is coordinating with the respective RSCs to complete the capitalization in 2020.</p>	<p>Action should be taken to capitalized.</p>

3. Physical Performance

3.1 Physical progress of the activities of the Project

Item Nos	Activities	Units	Expected target	Target achieved as at 31 December 2019	Impacts	Responses of the Management	Auditor's Recommendations
(a)	System Rehabilitation for Non-Revenue Water Reduction in southern part of Colombo city				Project period had been extended from 30 June 2019 to 15 October 2022 due to poor performance	As mentioned in the report the progress achieved up to 31st of December 2019 is not sufficient to complete the project on scheduled deadline. To some extent, the restrictions during the Easter Sunday attacks and climate changes had led the progress to the level mentioned above. Though the progress was going to be increased from the year 2020, the work had been restricted by COVID 19 pandemic. Hence, to increase the physical progress to a level of satisfactory, a revised programme was submitted by considering the all delays. Further, number of manpower with better workmanship and	Remedial action should be taken to expedite the construction works and project works should be closely monitored by the line ministry and NWSDB as executing and implementing Agencies of the Project.
-	Pipe laying	Metres	212,758	80,198			
-	connection transfers	House hold	33,337	7,200			
-	District metering areas progress	Nos	23	-			
-	Over all contract progress	percentage	78	42			

machinery are being increased. In addition to that, training programmes are being carried out continuously to increase the productivity and workmanship of the labours to make the project success. By considering the difficulties faced due to Unforeseeable Physical Conditions, extending project time period will be possible as mentioned in the report.

(b)	System Rehabilitation for Non-Revenue Water reduction in western part of Colombo city				Project period had been extended from 30 June 2019 to 15 October 2022 due to poor performance	There is a possibility to extend the project period as stated in the report due to lapse in progress compared with the expected target, necessary attempts are being taken to increase the progress by increasing resources and to complete the project as per original contract period..	Remedial action should be taken to expedite the construction works and project works should be closely monitored by the line ministry and National Water Supply and Drainage Board as executing and implementing Agencies of the Project.
	- Pipe laying	Metres	106,467	67,364			
	- connections	House hold	9,593	4,652			
	- Transformers		18	01			
	- DMA progress	Nos	85	48			
	- Over all contract progress	percentage					

(c) Construction of office buildings for Area Engineer office Pamankada	Construction was not commenced, due to lack of the land for construction	Objectives of the Project could not be achieved with the Project period.	<p>At the initial stage, UDA has agreed to lease a land lot of 40 perch at Narahenpita Road, Nawala to NWSDB for construction of Colombo South (Pamankada) Area Engineer Office. Later CMC has requested the same land for the construction of sewerage pump station due to its geographical suitability. After series of discussion in Official Committee for Economic Management (OCEM) meetings, UDA has decided to reserve the said land lot to CMC while arranging a land lot in equal extent in alternative location (Milco premises at Kirimandala Mawatha) for NWSDB.</p> <p>At present, UDA has vested authority to Divisional Secretariat, Thimbirigasyaya to carry out document process. Accordingly, Survey Department has scheduled to carry out a survey in 2nd week of August 2020 of said the land. The above slow process has caused the delay in commencement of</p>	Action should be taken to vest the land and commence the works without further delay.
---	--	--	--	---

designing/construction work of Area Engineer's Office at Pamankada.

(d)	Construction of proposed Training Centre, hostel building and canteen	Percentage	90	69	Objectives of the Project could not be achieved with the Project period.	<p>Project period requires extension due to appended reasons</p> <ul style="list-style-type: none"> • Unforeseen underground condition & respective design changes such as Bored concrete Pile of Ø900mm -increased from 13nrs to 17nrs. • Poor turnout of workers to the site after Easter bomb blast, which had slowed down the progress of the work • Inundated condition due to adverse weather condition • Delayed payment of local component of advance payment & non - payment of VAT till IPA-11. • Pandemic situation due to COVID-19 -Limited deployment of work force to the 	Remedial Action should be taken to complete the works within scheduled work plan.
-----	---	------------	----	----	--	--	---

project site
 (Health guideline)
 -Manufacturing of
 M&E item delayed
 (Abroad)
 -Importation of M&E
 items interrupted

3.2 Contract Administration

No.	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	The contract for the system rehabilitation for non-revenue water reduction in western part of Colombo city awarded in October 2016 for the pipe laying works of 106,467 metres and provides service transfers to 9,593 house holders scheduled to be completed in 18 district metering areas. However, only pipe laying works of 67,364 metres had been completed and 4,652 service transfers had been provided for households as at 31 December 2019. Further, pipe laying works of 1,117 metres of one district metering area (DMA)	Possibility to extend the Project period	<input type="checkbox"/> It is agreed that the total pipe laying works of 106,467m are scheduled to be completed and provide service connection transfers to 9,593 house holders in 18 District Meter Areas. <input type="checkbox"/> The total laid length up to 2019.12.31 is 67,364m and completed 4,652 service connections. <input type="checkbox"/> The progress is less to certain extent when compared with the schedule. The major obstacles which we faced are unforeseeable ground conditions which slowed the pipe laying, adverse weather condition, complications in obtaining approvals from relevant author-	Remedial action should be taken to expedite the works within scheduled contract period and closely monitor the contract works by the project monitoring unit.

had not been commenced even up to 31 March 2020. The main objective was rehabilitation and expansion of the water supply system and reduced non-revenue water volume in Colombo city. However, out of 18 district metering areas, only one district metering area had been fully completed and involved to the reduction of non-revenue water within scheduled Project period.

ities etc. Further, police curfew imposed on 2019 due to the Easter attack also adversely affected the construction works.

- It is agreed that pipe laying works of 1,117m of one DMA has not been commenced even up to 31st March 2020. CMC drainage clearance and excavation approvals were already requested at the time and expected to receive approval. However, CMC drainage clearance was received for part of DMA 22 on 14th July 2020 and now requested for CMC excavation approval. Once the approval receives, the pipe laying work will be commenced.
- We agree that one DMA is fully completed out of 18 DMA's. However, in several DMA's we have laid new pipes and commissioned the lines. Further part of decommissioning works was completed, and balance is in progress. Therefore, several other DMA's are now contributing to the reduction of NON REVENUE WATER in project area.

- | | | | | |
|-----|---|--|---|--|
| (b) | The expected targets on pipe laying works under the contract for system rehabilitation for Non-Revenue Water reduction in southern part of Colombo city to complete 212,758 metres and 33,337 service transfers by June 2021 had also remained behind the targets and only 80,198 metres of pipe laying works for 7,200 households in 23 District metering areas had been completed as at 31 December 2019. Further, the pipe laying works of 48,026 metres in 06 District metering areas had not been commenced even up to 31 December 2019. | Possibility to extend the Project period | The number of service connections which were completed is not satisfied to achieve the target completion. Therefore in 2020, after the unexpected outbreak due to COVID 19, first priority was given to commence the house connection works by increasing number of skilled labours and machinery.
Further, pipe laying in new DMAs has been started recently and the progress of pipe laying is being increased with better coordination, required manpower and machinery. Though the progress has been increased, extending of project time period will be supportive to achieve the goals of project while maintaining the quality of work. Also notice has been issued to contractor by the chairman and to enhance the resources. | Remedial action should be taken to expedite the works within scheduled contract period and closely monitor the contract works by the project monitoring unit.(PMU) |
| (c) | Contract for supply delivery and installation of Geography Information System (GIS) software and development of web application and training was awarded on 12 November 2018 at a cost of Rs.54.26 million and scheduled to be completed by 11 November 2019. However, contract had not been completed | Delay in contract completion. | While developing the web GIS system, there are several integrations has to be done with the zone officers' field service App which is being developed by the NWSDB IT department. As this field service application is under developing at the moment, the integration part also has to be done simultaneously. In some occasions, GIS team has to wait until the development of field service application | Action should be taken to expedite the works. |

and the Project completion date had been extended three times up to 31 July 2020, due to delays in preparation of data model and web application, access facility, training for work with main server, call center integration and unavailability of adequate main server space to connect with regional support services center etc.

and customer complaint management has to be completed. Therefore, several extensions have been granted due to this new requirement which is not exist at the beginning of the contract.

All the existing data collected from RSCs were handed over to the Contractor by the end of December 2019. According to the contract specifications, it is only required to convert available existing data to newly design data base structure and work is completed.

Further due to the COVID-19 pandemic, around 60 days of delay has occurred.

3.3 Matters in Contentious Nature

No	Audit Issues	Impacts	Responses of the Management	Auditor's recommendations
(a)	A sum of Rs.10 million had been paid as advance to the Urban Development Authority for the acquisition of land during the year 2015. However, a sum of Rs.8.54 million had been returned after lapse of four years after deducting Value Added Tax, Nation Building Tax and valuation fees amounting to Rs. 991,115, Rs.178, 897 and Rs.285,000 respectively. As a result, Rs.1.46 million spent	Project funds had become a fruitless expenditure over 3 years	Although project requested to settle the full amount, Urban Development Authority refunded the amount after deducting for VAT, NBT and valuation fees.	Advance should be paid after ensuring that the works are carrying without delay.

for the acquisition of land considered as an uneconomic expenditure.

- | | | | | |
|-----|--|---|--|---|
| (b) | According to the Interim Payment Certificate No. 18 of the construction of proposed training center, hostel building and canteen at Thelawala, a sum of Rs.10.56 million had been paid out of the estimated value of Rs.11.91 million for the renovation of conference hall building of the head office under the variation order (vo-09) contrary to the scope of the contract on 31 December 2019. Further, above variation order was approved only on 04 June 2020. | Expenses incurred by the Project to the head office building which contrary to the contract scope and payment was made before obtaining the approval under the extra works. | The renovation of conference hall at NWSDB head office has been executed as advised by General Manager (NWSDB) and special request letter (Annex II) from Additional General Manager (NWSDB-P&P), by utilizing the identified savings from Training Centre contract. The Variation Order has been approved on 04th June 2020 although the VO Committee meeting was held on 6th Feb 2020 (Annex III). The contractor has been paid reasonably for the work that had been completed satisfactorily, to avoid cash flow issue to the contractor & interest claim for delay payment. | Project should be carried out the works within the project scope and approvals for extra works should be obtained before the payment. |
| (c) | A sum of Rs.2.12 million paid as an additional financial charges on delays in settlement of interim payments amounting to Rs.112.44 million as at 31 December 2019, due to poor fund management. Therefore, such expenses had been considered as fruitless expenses. | Uneconomic expenses | Project has experienced several delays of settling local/ government part of the contractors' bills due to lack of GOSL funds. Further there were some instances where the treasury had temporary stopped contractors' bill processing due to insufficient foreign allocation. Hence the contractors have claimed delay interest on these late settled bills and project has to settle a considerable amount as delay interest in the future too. | Remedial action should be taken to settle the bill value on due dates. |

3.4 System and Controls

Nos	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	An approval for the works had not been obtained even up to 31 May 2020 for a sum of Rs.9.49 million made for the extra works and variation order valued at Rs.26.61 million for the construction of project training center, hostel building and canteen at Thelawala paid up to interim payments certificate No.18 dated 30 November 2019.	Poor contract administration	We accept the fact that payment has been made with pending variation order approval in November 2019. However the amount paid is the amount reviewed and certified by the PIU and the consultant. The amount paid through pending variation order approval is considerably less than the actual amount requested by the contractor. Although the above variation orders were submitted to the Variation Committees held after November 2019 it was not approved due to some rate concerns of the committee members. However, currently the rates are agreed and finalized so that particular variation orders will be submitted and approved by the next immediate variation order committee. And also, project will ensure that such pending variation order payment will be made only with a covering approval in the future.	Procedure should be adopted to obtain proper approvals for variation orders before the payment is made.

- | | | | | |
|-----|---|---|--|--|
| (b) | Value Added Tax and National Building Tax amounting to Rs.58.69 million payable to the 06 contractors had been remained outstanding from the period of 292 to 441 days without being settled as at 31 December 2019. | Poor financial management | NWSDB is continuously working for obtaining the VOTE basis approval for pending VAT payment of contractors and finding a funding mechanism to settle the pending NBT amounts of contractors. | Action should be taken to arrange the proper fund management mechanism to settle the bill payments on due dates. |
| (c) | According to the Management Circular No.05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit section of the National Water Supply and Drainage Board. Further, the Project office had not been taken action to appoint an internal auditor, as required by the Circular No.02/2006 of 10 June 2018 of the Department of Management Audit. | Poor internal control and Non-compliance with the requirements of the circular. | This matter will be clarified by the Internal Audit Division of NWSDB. | Should be adhered circular provision |