

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 - (National Water Supply and Drainage Board - The Asian Development Bank - Agreement No. 2947-SRI and 2948-SRI) - 2024

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 for the year ended 31 December 2024 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. 2947-SRI and 2948-SRI (SF) dated 28 June 2013 entered into between the National Water Supply and Drainage Board and the 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 Programme - Project 01

According to the Project and Loan Agreements of the Programme Project - 01, then Ministry of Water Supply and Drainage, presently the Ministry of Urban Development, Construction and Housing is the executing agency and the National Water Supply and Drainage Board is the Implementing Agency of the Programme Project - 01. The objectives of the Programme Project - 01 are to improve urban environment and quality of life for the residents of Greater Colombo area and expected to (a) rehabilitate and expand water supply system and reduced Non-Revenue Water in the City of Colombo (b) improve wastewater service in the Greater Colombo area (c) strengthen institutional structure and capacity of the service providers and (d) manage and implement investment projects. As per the Loan Agreements, the estimated total cost of the Programme Project - 01 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 is expected to be contributed by the Government of Sri Lanka. The Programme - Project 01 commenced its activities on 25 September 2013 and scheduled to be completed by 31 December 2016. Subsequently, the period of the Programme - Project 01 had been extended three times up to 30 June 2021.

1.3 Qualified Opinion

In my opinion, except for the effect of the matters described in the section 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Programme -Project 01 as at 31 December 2024 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 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.

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

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 scepticism 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 - Project 1
- 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 Deficiencies /Audit Issue	Amount Rs. Million	Responses of the management	Auditor's Recommendation
(a)	As per the paragraph 39(a) of Sri Lanka Accounting Standard 21, the parity adjustments amounting to Rs. 4,853 million relating to foreign loan had not been accounted in the financial statements of the project in the year under review.	4,853	No Parity Adjustment has been made in the financial statements.	Adhere to the Sri Lanka Accounting Standards.
(b)	The physical progress of the rehabilitation works was fully completed and handing over to National Water Supply and Drainage Board by 23 May 2022. Therefore, the debt servicing costs of Rs.172.70 million related to the period from June to December 2022 should have been paid by National Water Supply and Drainage Board. But it had been capitalized to the capital work in progress in the project financial statements. As a result, project's assets had been overstated by that amount.	172.70	The interest incurred for the years 2023 and 2024 has not yet been accounted for within the project records.	Adhere to the Sri Lanka Accounting Standards.

2.2 Non-Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non-Compliance/ Audit Issue	Responses of the management	Auditor's Recommendation
(a)	Financial Regulation No 502(2) and Treasury Circular No. 842 dated 19 December 1978.	Fixed asset register had not being maintained by the project Office.	The inventory list was submitted in the year 2024.	Circular instructions should be followed.

- | | | | | |
|-----|---|---|---|---|
| (b) | 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. | Annually, the Internal Audit expresses their views and proposals to improve the project activities. | Circular instructions should be followed. |
|-----|---|---|---|---|

3. Physical performance

3.1 Physical progress

As per the progress report, the Project – 01 which was executed with the objective of reducing the non-revenue water in Colombo city from 49 percent to below 18 percent, had been involved to pipe laying works of 466,165 meters and provide connection transfers to 62,932 house holders in 36 district metering areas (DMAs) and reduce NRW under the rehabilitation and expand water supply system of Northern and Eastern part of the Colombo city. Even though the physical progress of the project was 100 percent as per the progress reports as at 31 December 2024, it was observed that the expected objective of the project had not been achieved as mention in the 3.2 paragraph of this report.

3.2 Contract Administration

Audit Issue	Responses of the management	Auditor’s Recommendation
(a) 36 DMA meters were installed with the value of USD 383,710.2 approximately Rs.115 million to obtain the flow measurements data to execute the NRW management and to see the progress of the target. Those meters were installed after laps of two years from the 3 year warranty period. However, as of 24 April 2025, 31 DMA meters out of above 36 remained non – operational due to depleted batteries and defective data loggers. Several meters have been inactive since 2022, despite tender specifications stipulating a five – year battery life. The lack of timely remedial measures has compromised the functionality of the monitoring system and raises significant concerns regarding the long-term sustainability and effectiveness of the project outcomes.	Presently the PMU together with O&M section do the rectification work. As at 30th May 2025, 23 flow meters are working. Balance rectification work is planned to be completed within a month.	Maintenance procedure should be implemented for sustainable use of those meters and action should be taken to recover the losses of defected meters from the supplier before release of the final payments.

- (b) Original Contract Sum of Rs. 7,414.46 million for ICB 01 System Rehabilitation for NRW Reduction in North Part of Colombo City had significantly increased to Rs. 9,528.55 million which is 28 percent increase compared to the original contract sum.
- Revised laying length as well as revised contract sum cannot be predicted until the final DMA is formed.
- Prior approval from the relevant authorities should be taken for any contract price increases exceeding 10 percent.

3.3 Controversial activities

Audit Issue	Responses of the management	Auditor's Recommendation
<p>A total BOQ amount of Rs. 990 million of ICB 01 Contract, and Rs. 1,135 million. For ICB 02 Contract approximately 14 percent Of the contract value had been allocated for pipe laying using trenchless technology and pipe rehabilitation using relining and pipe bursting methods.</p> <p>The use of trenchless technology had a critical consideration in selecting the International Competitive Bidding method rather than National Competitive Bidding . This decision was made to attract international contractors with proven capabilities in advanced pipe-laying and rehabilitation technologies. Consequently, only international contractors with expertise in these specialized methods submitted bids typically at higher cost structures.</p> <p>During the implementation stage, the Project Management unilaterally decided to omit the trenchless technology and use open trench method and new pipe replacement due to some practical issues raised which could be identified before call Bids. These changes effectively descoped critical BOQ items that were central to the original bidding strategy. Even though the Prior approval from the Cabinet Ministers should be taken to the removal of BOQ items exceeding 10 percent of the Contract Sum and in this</p>	<p>Due to heavy traffic and to avoid public inconvenience in Colombo city, the project decided to use trenchless method at the project formulation stage. However, during the implementation stage, we were compelled to use open trench method due to most of the pipes sizes are need to be increased due to un predicable demand increase Further, the Tender documents prepared by the project were evaluated by a TEC appointed for the purpose. In lieu of trenchless method, the project adopted open trench method using BOQ rates. As a result, contract sum was not changed beyond 500 mn.</p>	<p>Appropriate action should be taken for the noted violations.</p>

case, exceeding Rs. 500 million constitutes a material variation to the contract scope, approval was not obtained and Instead, the variation was authorized solely by the Project Variation Committee,

3.4 System and Controls

Audit Issue	Responses of the management	Auditor's Recommendation
(a) Assets Forms prepared for assets totaling to Rs. 552Mn relevant to the project had been taken over by the DGM (Western Central), and who was handed over the same assets as project director. Chief accountant or cost accountant had not been Signed and sealed to the assets hand over forms amounting Rs. 192Mn. It was observed that this situation creates a potential conflict of interest in the project's entire asset capitalization process due to inadequate internal controls.	This is a critical process and there is no conflict of interest at any stage. We have submitted supporting documents related to this process to the Audit.	Assets handing overs process should be handled by the independent party to avoid conflict of interest
(b) Even though three years had passed since pipelines were laid and handed over to the Colombo Municipal Council, no action had been taken to recover the Security Deposits valued at Rs. 109,830,276 that were made as a security for the construction work carried out by the project.	Project continuously, requested the CMC to release the payment. However, CMC has released only a very small amount.	Action should be taken to recover the security deposit without further delay.