

Greater Colombo Water and Wastewater Management Improvement Investment Programme (Loan No 2947 SRI and 2948 SRI) - 2013

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme for the year ended 31 December 2013 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 of the Project Agreement and the Loan Agreements No. 2947 SRI and 2948 SRI dated 28 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme, the National Water Supply and Drainage Board (NWSDB) under then Ministry of Water Supply and Drainage presently, Urban Development and Water Supply and Drainage is the Implementing Agency of the Project. The objectives of the Project are to improve urban environment and quality of life for the residents of greater Colombo. The Project is expected to rehabilitate and expand water supply system and reduced Non Revenue Water in Colombo city, improve wastewater service in Greater Colombo, strengthened institutional structure and capacity of service providers and manage and implement investment programs. As per the Loan Agreements, the estimated total cost of the Project is US\$ 112 million and out of that US\$ 84 million or 75 per cent is agreed to finance by the Asian Development Bank (ADB). the Project commenced its activities on 28 June 2013 and scheduled to be completed by 31 December 2016.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall

presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Project etc,
- (c) Whether the funds provided under the Loan had been utilized for the purposes of the Project,
- (d) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles, and
- (e) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous audit report.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) The Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles, and
- (b) The funds provided had been utilized for the purposes for which they were provided.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2013 amounted to Rs. 47,807,536 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 62,082,777. A summary of the expenditure for the year under review, expenditure for preceding year and the cumulative expenditure as at 31 December 2013 are shown below.

Item	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013 Rs.	2012 Rs.	Rs.
Office Equipments	19,200	1,037,028	1,056,228
Civil Works	130,000	-	130,000
Incremental Recurrent Cost	47,658,336	13,238,213	60,896,549
Total	47,807,536	14,275,241	62,082,777

4.2 Imprest Account

Even though the Imprest Account No. 74129 - 173 for the Project had been opened at the Central Bank of Sri Lanka, no transactions had been taken place during the year under review.

5. Audit Observations

5.1 Accounting deficiency

Interest amounting to Rs. 1.8 million charged by the ADB during the year under review had not been accounted for.

5.2 Lack of Documentary Evidence for Audit

The following observations are made.

- (a) The payroll summaries of the Project had only been furnished for audit purpose. The calculations of remunerations and other allowances, etc. could not be verified in audit due to lack of detailed records for salaries amounting of Rs. 28.2 million paid by the Project during the year under review.
- (b) The property, plant and equipment procured at a cost of Rs. 1,056,228 had not been physically verified. Further, a Register of Fixed Assets had not been maintained by the Project.

5.3 Non – Compliances with Laws, Rules and Regulations

The following instances of non - compliances were observed.

- (a) The financial statements of the Project for the year ended 31 December 2013 which should be submitted for the audit on or before 28 February 2013 had been submitted to audit only on 09 October 2014.

- (b) Transactions of the Project had not been subjected to the internal audit as per the Management Audit Circular No. 05 of 26 July 2010.
- (c) The Statement of Cash Flow has shown only the inflows / outflows of last two months of the year under review instead of transactions made during the entire year.

6. Financial and Physical Performance

6.1 Utilization of Funds

The following observations are made.

- (a) A detailed action plan highlighting the financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc, covering the entire Project period should be prepared to ensure the achievement of the Project objectives using allocated resources within scheduled time period. However, such plan had not been prepared and implemented by the Project.
- (b) Certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at 31 December 2013 are shown below.

Source	Amount agreed to be provided		Budgetary provision for 2013	Funds utilized during the year under review	Funds utilized as at 31 December 2013	
	US\$ (Million)	Rs (Million)	Rs (Million)	Rs (Million)	US\$ (Million)	Rs (Million)
ADB	84	11,088	900	-	-	-
GOSL	28	3,696	400	48.48	0.47	63.14
Total	<u>112</u>	<u>14,784</u>	<u>1,300</u>	<u>48.48</u>	<u>0.47</u>	<u>63.14*</u>

* This amount does not agree with the figure shown in paragraph 4 of this report, as payables and receivables at the year end was not included.

6.2 Physical Performance

The activities of the Project was scheduled to be completed by 31 December 2016. According to the progress reports of the Project, the overall physical and financial progress of the Project at the end of the year under review was 1.99 per cent and 0.43 per cent respectively. The progress of the performance of each component of the Project was as follows.

Project Activity / Project Component	Progress as at 31 December 2013	
	Target	Actual
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	%	%
Supply and installation of leakage detection equipment and all other related equipment	30	26
Supply and installation of flow meters, pressure transducers and software	20	18
Supply of vehicles for teams for Non Revenue Water Sector	30	27
Supply and laying of pipes for replacement and reinforcement of distribution system (Colombo North)	4	2
Supply and laying of pipes for replacement and reinforcement of distribution system (Colombo East)	2	1
Constructions of Area Engineering Office for Non Revenue Water Sector	2	0.4
Management Advisory and Supervision	6.9	4.5
Public awareness and media consultant	2	Not commenced
Capacity Development	2	Not commenced

6.3 Matters in Contentious Nature

As a practice, the computation of the remuneration for the staff of the Project are being done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged thereon even though the adequate staff for general administration purpose are employed at the Project Management Unit. Therefore, overhead cost of Rs. 6.9 million had been incurred by the Project during the year under review, out of proceeds received from General Treasury.