

## **Greater Colombo Waste Water Management Project (NWSDB part) -2014**

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The audit of financial statements of the Greater Colombo Waste Water Management Project (NWSDB part) for the year ended 31 December 2014 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 2.09 of Article II of the Loan Agreement No: 2557/2558 SRI dated on 18 December 2009 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of Project, the Ministry of Provincial Councils and Local Government is the Executing Agency of the Project. The Colombo Municipal Council is responsible for the implementation of work within Municipal Council area and National Water Supply and Drainage Board is responsible for the implementation of work within Kolonnawa Urban Council and Dehiwala / Mt. Lavinia Municipal Council Areas. The objective of the Project is to improve the urban environment and public health for the urban and sub urban residence in Greater Colombo through waste water management services. The expected outcome of the Project is to improve the waste water management services to approximately 645,000 residents within the Project area. As per the Loan Agreement, the estimated total cost of the Project is US \$ 116.6 million equivalent to Rs. 13,410 million and out of that US \$ 80 million equivalent Rs. 9,200.8 million or 68.6 per cent was agreed to be financed by the Ordinary Capital Resources (OCR) of the Asian Development Bank and US \$ 20 million equivalent to Rs. 2,300.2 million or 17.1 per cent was agreed to be financed by the ADB's Special Funds Resources (SFR) to the Government of Sri Lanka and the balance amount of US\$ 16.6 million equivalent to Rs. 1,909 or 14.3 per cent is contributed by the Government of Sri Lanka. Out of that a sum of US \$ 8.8 million equivalent to Rs. 1,012.03 million of the above mentioned total estimated cost of the Project had been allocated to the activities to be carried out by the National Water Supply and Drainage Board.

Further, a subsidiary Financing Agreement was signed on 02 July 2010 between the Government and National Water Supply and Drainage Board. According to that subsidiary Financing Agreement it was agreed to provide SDR 3.7 million (US \$ 5.64 million) equivalent Rs. 647.68 million out of the proceeds of the Loan Agreement in a blend of 82.5 per cent as Grant and 17.5 per cent as Loan. The balance sum of US\$ 3.17 million equivalent to Rs. 364.35 million was agreed to be financed by the Government of Sri Lanka. The Project commenced its activities on 18 December 2009 and was scheduled to be completed by 31 December 2014. However, completion date of the Project had been extended up to 30 June 2017 subsequently.

### **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 Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) 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 identifications of the purchases made out of the Loans etc.

- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreements had been complied with.

#### **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1. 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 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provide.
- (c) The Statement of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with requirements specified in the Loan Agreement.

- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiency**

Depreciation on property, plant and equipment of the Project valued at Rs.3.82 million as at 31 December 2014 had not been provided.

### **2.2.2 Non - Compliance with Laws, Rules and Regulations**

The following observations are made.

- (a) The financial statements of the Project for the year ended 31 December 2014 required to be submitted for the audit before 31 March 2015 had been submitted only on 22 July 2015.
- (b) The property, plant and equipment shown in the financial statements amounting Rs.3.82 million had not been physically verified as per Financial Regulation 756.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review, utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budgets Estimate for the year under review	<u>Funds utilized</u>			
	US \$ million	Rs. million		during the year 2014		up to 31 December 2014	
	US \$ million	Rs. million	Rs. million	US \$ million	Rs. million	US \$ million	Rs. million
ADB	5.63	647.68	200.00	1.405	183.82	1.405	183.82
GOSL	3.17	364.35	50.00	0.108	14.11	0.458	59.06
Total	<u>8.80</u>	<u>1,012.03</u>	<u>250.00</u>	<u>1.513</u>	<u>197.93</u>	<u>1.863</u>	<u>242.88</u>

### **3.2 Physical Progress**

The following observations are made.

- (a) The contract on rehabilitation / augmentation of 06 Waste Water Pump Stations located at Dehiwela, Mount Lavinia and Kolannawa Urban Council areas had been awarded in 2014, after 05 years of the commencement of the activities of the Project. Therefore, the completion of such contracts during the period of balance 03 years is remained doubtful.
- (b) According to the progress reports furnished for audit, the overall physical and financial progress as at the end of the year under review was 19 per cent and 24 per cent respectively. Further, a sum of Rs.250 million allocated in the Government Budget for the year 2014 had not been utilized completely due to delay in implementation of the Project activities and longer time taken at the designing stage.

### **3.3 Matters in Contentious Nature**

As a practice, the computation of the remuneration for the staff of the Project is being done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged from the Project even though the Project had recruited adequate staff for its administration works. The overhead expenditure so paid by the Project to the National Water Supply and Drainage Board up to 2014 amounted to Rs. 7.21 million.

### **3.4 Issues on Financial Control**

According to the Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010, the transactions of the Project had not been subjected audit by the Internal Audit Section of the National Water Supply and Drainage Board.