

Greater Colombo Water and Wastewater Management Improvement Investment Programme (Loan No 2947 SRI and 2948 SRI) - 2014

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme 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 2.10 of the Loan Agreements No. 2947 SRI and 2948 SRI dated 28 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank .

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Programme , then Ministry of Water Supply and Drainage presently, Ministry of Urban Development, Water Supply and Drainage is the Execution Agency and the National Water Supply and Drainage Board is the Implementation Agency of the Programme. The objectives of the Programme are to improve urban environment and quality of life for the residents of Greater Colombo area. The Programme 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 programme. As per the Loan Agreements, the estimated total cost of the Programme is 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 will be contributed by the Government of Sri Lanka. The Programme 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 Sri Lanka Accounting Standards and for such internal control as the management determines as 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 Programme’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 Programme’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 management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identifications of the purchases made out of the Loan.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Programme.

- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (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 Agreement had been complied with.

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 Programme 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 Programme 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 provided.
- c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the 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 Deficiencies

The following observations are made.

- (a) Commitment and service charges recovered by the Lending Agency during the year under review amounting to Rs. 7 million had not been accounted for.

- (b) Depreciation had not been provided for the property, plant and equipment procured by the Programme.
- (c) Value Added Tax amounting to Rs.7.6 million incurred on procurement of property, plant and equipment during the year under review had been accounted under work-in-progress instead of being capitalized under the respective asset.

2.2.2 Non- compliance with Law, Rules, Regulation and Directions etc,

The following instances of non- compliance were observed in audit.

- (a) According to the directions made by the Asian Development Bank, job description and job specification to be prepared on or before 30 April 2014 for the staff of the Programme had not been prepared even as at 31 March 2015.
- (b) According to the Section 43 of the Facility Administration Manual of the Programme, a Management Advisory and Supervision Consultant was required to be appointed to assist the National Water Supply and Drainage Board for successful implementation of the Project and mobilize the consultancy works by the second quarter of the year 2013. However, such a Consultant had not been appointed even as at 31 March 2015.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the 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 Agreements		Allocation made in the Budget Estimate for the year under review	<u>Funds utilization</u>			
	US\$ million	Rs. million		during the year under review		As at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	84	11,088	1,477	7.18	932.00	7.18	932
GOSL	28	3,696	630	0.70	91.93	1.18	155
Total	<u>112</u>	<u>14,784</u>	<u>2,107</u>	<u>7.88</u>	<u>1,023.93</u>	<u>8.36</u>	<u>1,087</u>

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 Programme period should be prepared to ensure the achievement of the Programme objectives using allocated resources within scheduled time period. However, such plan had not been prepared and implemented by the Programme.
- (b) It was observed that the total estimated cost of the Programme of US\$ 112 million had been increased subsequently up to US \$ 170 million due to changes in the scope, cost overrun, etc. However, no arrangements to fill the financing gap was explored even as at 30 April 2015.

3.2 Physical Progress

According to the progress reports prepared by the Project, the overall physical and financial progress of the Project at the end of the year under review was 2.7 per cent and 7.3 per cent respectively. Possibility of completion of balance works within the rest of the period of 02 years is doubtful, unless expedite actions adopted.

3.3 Extraneous Activities

The following observations are made.

- (a) Six motor vehicles and furniture and office equipment procured by the Programme for Rs.32.5 million and Rs. 733,829 respectively had been allowed to use by the Regional Offices of the National Water Supply and Drainage Board for the purposes which not directly related to the activities of the Programme.
- (b) 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 Programme even though the Programme maintains adequate staff for the administration purposes. A sum of Rs 9.1 million had been charged by the National Water Supply and Drainage Board as cost of overhead for the year under review.

- (c) According to a contract awarded in 2014, the equipment for active leakage control purposes were required to be supplied before 31 January 2015. Such equipment had not been supplied even as at 30 May 2015 eventhough the mobilization advance amounting to Rs 2.1 million had been made on 31 December 2014.

3.4 Issues on Financial Controls

The following observations are made.

- (a) Transactions of the Programme had not been subjected to the internal audit as enable to ensure the financial controls.
- (b) According to the practices followed by the Programme, the detailed schedule which includes the information such as basic salary, allowances and deductions, etc. are not maintained by the Programme. Therefore, detailed information relating to the staff remuneration amounting to Rs. 55.7 million paid by the Programme during the year under review was not readily made available for audit.