

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 - 2016

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 for the year ended 31 December 2016 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 4.03 of Article IV of the Loan Agreement No. 3030 dated 03 June 2014 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 Agreement, the Ministry of Provincial Councils and Local Government is the Executing Agency and the Colombo Municipal Council and National Water Supply and Drainage Board are the Implementing Agencies of the Project. The objective of the Project is to improve efficiency and financial sustainability of water supply and wastewater services in Greater Colombo area. As per the Loan Agreement, 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 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 financed by the Asian Development Fund. Further, out of the estimated total cost of the Project, US\$ 9.44 million equivalent to Rs.1,396.20 million had been allocated for the activities 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 Colombo Municipal Council. The Project had commenced its activities on 23 September 2014 and scheduled to be completed by 30 June 2019.

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. 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 Loan, etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards,
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) 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, I am of opinion that,

- a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Accounting Standards,

- b) the funds provided had been utilized for the purposes for which they were provided,
- c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- d) the Statements of Expenditure (SOE) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- f) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial & 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 up to 31 December 2016 are shown below.

Source	Amount agreed to be financed as per the Loan Agreement		Amount agreed to be allocated for the Colombo Municipal Council		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2016	
	US\$ million	Rs. million	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
ADB	88	11,440	8.00	1,050.40	124.00	0.19	27.36
GOSL	30	3,900	1.44	345.80	30.00	0.05	7.93
Total	<u>118</u>	<u>15,340</u>	<u>9.44</u>	<u>1,396.20</u>	<u>154.00</u>	<u>0.24</u>	<u>35.29</u>

According to the above information, only 2.54 per cent of funds allocated to implement the activities of the Project by the Colombo Municipal Council had been utilized within 27 months of the period of operations of the Project. Therefore, the possibility of utilizing of balance of 97.46 per cent of allocated funds within the remaining period of 30 months is in doubt.

3.2 Physical Progress

According to the information received, the main activities of the Project comprised with (a) design, supervision and institutional development consultancy for preparation of detailed designs for the Greater Colombo Water and Wastewater Management Improvement Project - 03 which expected to be implemented in future and formulation of recommendation for institutional reforms for the sewerage service and (b) carrying out a conditional assessment

of 115 kilometres length of sewer network through cleaning and CCTV surveys of sewers. However, the progress on implementation of the the activities of the Project had remained behind the targets as at 31 December 2016. The following observations are made thereon.

- (a) The reports of feasibility studies on wastewater treatment plants in the northern catchment areas and sewer networks in 08 un-served areas of Colombo City and rehabilitation and upgrading of existing minor pump stations required to be submitted by 31 December 2016, had not been submitted by the Consultants even as at 30 June 2017.
- (b) The preparation of bid documents for the procurements and contract supervisions for the purpose of conditional assessment of 115 kilometres length of sewer network in Colombo City required to be submitted by 31 December 2016, had not been submitted even as at 30 June 2017.
- (c) Action had not been taken to acquire suitable plots of land for 02 pumping stations for the expansion of sewer network in Kirulapona-Narahenpita area and as a result, contract for the supervision construction for the improvement of sewer network in the respective area was not awarded even as at 30 June 2017.

According to the explanations made by the Project Director, the above mentioned activities of the Project were implemented with delays due to reshuffling of the activities of the Executing Agencies and the time taken to appoint the Consultants to implement the activities of the Project.