

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche - 2 - 2017**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme – Tranche 2 for the year ended 31 December 2017 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 and the Asian Development Bank.

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

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According to the Loan Agreement of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Tranche 2, then Ministry of Local Government and Provincial Councils, presently Ministry of Provincial Councils, Local Government and Sports is the Executing Agency and Colombo Municipal Council and the National Water Supply and Drainage Board are the Implementing Agencies of the Programme. The objectives of the Investment Programme are to improve water supply and wastewater service and management in Greater Colombo area and 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\$ 9.44 million equivalent to Rs.1,230.60 million and out of that US\$ 8.00 million equivalent to Rs. 1,042.88 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 1.44 million equivalent to Rs. 187.72 million will be contributed by the Government of Sri Lanka. This report consisted with the observations made on the activities of the Programme implemented by the Colombo Municipal Council. The Programme commenced its activities on 23 September 2014 and scheduled to be completed by 30 June 2018.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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. 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 Programme 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 Project 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, etc.
- (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 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 the 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**

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### **2.1 Opinion**

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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 Programme had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2017 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, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the Statements of Expenditure 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

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#### 3.1 Utilization of Funds

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Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2017 are shown below.

Source	Amount agreed for financing as per the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	8.00	1,042.88	200.00	0.43	65.34	0.62	92.70
GOSL	1.44	187.72	80.00	0.10	15.94	0.15	23.87
<b>Total</b>	<b><u>9.44</u></b>	<b><u>1,230.60</u></b>	<b><u>280.00</u></b>	<b><u>0.53</u></b>	<b><u>81.28</u></b>	<b><u>0.77</u></b>	<b><u>116.57</u></b>

According to the above information, out of allocation amounting to Rs.280 million made by the Annual Budget Estimate for the year 2017, a sum of Rs.81.28 million representing 29.03 per cent of the allocation had only been utilized during the year under review, due to poor performance in execution of the activities of the Programme. As per the financial plans of the Programme, a sum of US\$ 7.34 million representing 77.75 per cent of the total allocation was

expected to be utilized as at 31 December 2017. However, a sum of US\$ 0.77 million equivalent to Rs.116.57 million representing 8.15 per cent had only been utilized as at the end of the year under review.

### **3.2 Physical Progress**

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According to the information received, the main activities of the Programme comprised with (a) design, supervision and institutional development consultancy for preparation of detailed designs for the Greater Colombo Water and Wastewater Management Improvement Investment Programme Tranche-02 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 125 kilometres length of sewer network through cleaning and CCTV surveys of sewers. The works under the consultancy support for designing, supervision and institutional development had been completed and the progress on implementation of the activities of the Programme had remained behind the targets as at 31 December 2017. The following observations are made thereon.

- a) Eventhough the agreement of the Programme had been signed on 03 June 2014, the Consultants had been appointed in April 2016 and the respective Consultant had mobilized at the sites in June 2016. It was main reason of the delay of two Packages.
- b) Further, the activities under the Institutional Development Drainage Division of the Colombo Municipal Council had not been commenced as at 31 December 2017, due to delays in recruitment of an Institutional Development Expert.

### **3.3 Contract Management**

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The following observations are made.

- a) According to the information received the original scope of the works under conditional assessment of 125 kilometres length of sewer network through cleaning and CCTV surveys of sewers had been reduced to 108 kilometres during the year under review. The Project Director had explained that the new scope of works had been determined considering several matters such as overlapping of works under CCTV sewer network with the works completed by other project, need of specialized devises and costs overrun.
- b) The bids on contract on cleaning of sewers and condition assessments of net work including CCTV investigation and asset management data base for the sewer network had been closed on 27 July 2017. However, the language to be used for submission of bids had not been specifically mentioned in the bid document and as a result, the process on evaluation of bid documents had remained in progress as at 31 December 2017 as respective bid had been submitted in a different language.