

# **Greater Colombo Water and Wastewater Management Improvement Investment Programme -Project 01 - 2017**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 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 4.05 of Article IV of the Loan Agreement No. 2947-SRI and Section 4.03 of Article IV of the Loan Agreement No. 2948 – SRI (SF) dated 28 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and Asian Development Bank along with Section 2.10 of Article 11 the Project Agreement dated 28 June 2013 entered between the National Water Supply and Drainage Board and the Asian Development Bank.

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

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According to the Loan Agreements of the Programme, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing 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 and expected to (a) rehabilitate and expand water supply system and reduced Non-Revenue Water in the City of Colombo (b) improve wastewater service in the Greater Colombo area (c) strengthen institutional structure and capacity of the service providers and (d) manage and implement investment projects.

As per the Loan Agreements, the estimated total cost of the Programme amounted to 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 is expected to be contributed by the Government of Sri Lanka. The Programme commenced its activities on 25 September 2013 and scheduled to be completed by 31 December 2016. Subsequently, the period of the Programme had been extended up to 30 June 2019.

## **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 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**

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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. 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 Loans, 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 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.
- (e) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Programme.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (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 Agreements had been complied with.

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

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

## **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, 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 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 Agreements,
- (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 Agreements had been complied with.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Value Added Tax aggregating Rs. 16.34 million paid up to 31 December 2017 had been set off against the contribution received from the Government of Sri Lanka instead of being shown under the work-in-progress.

- (b) A sum of Rs. 1.2 million spent by the Programme for soil investigation purposes for the construction of a new building for the Training Centre at Thelawala which scheduled to be implemented by another project had been erroneously shown under the work-in-progress of this Programme.
- (c) According to the Section 4.12 of the Disbursement Hand Book of the Asian Development Bank, the interest and commitment charges incurred during the period of construction are required to be capitalized. However, interest and commitment charges amounting to Rs. 166.37 million paid by the Programme upto 31 December 2017 had not been shown as the cost of construction.

## 2.2.2 Non – Compliances with Laws, Rules and Regulations

According to the Section 06 (1) (a) of the Public Contract Act, No. 03 of 1987, the contractors who accepted contracts equivalent to Rs. 5 million or above required to be registered at the Registrar of Public Contract and within 60 days after awarding the contract and the contract agreement should be registered with the Registrar of Public Contract. However, the contractors who engaged in activities of the Programme had not complied with the above requirement.

## 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 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		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	84	11,088	1,567	11.94	1,856	39.65	5,676
GOSL	28	3,696	213	1.27	198	12.62	1,801
<b>Total</b>	<b>112</b>	<b>14,784</b>	<b>1,780</b>	<b>13.21</b>	<b>2,054</b>	<b>52.27</b>	<b>7,477</b>

According to the above information, out of total allocation of US\$ 84 million equivalent to Rs.11,088 million made by the Lending Agency, only a sum of US\$ 39.65 million equivalent to Rs.5,676 million representing 47.2 per cent of the total allocation had been utilized as at 31 December 2017 after lapse of 4 ½ years from the commencement of the activities of the Programme. Therefore, the possibility of utilization of the balance amount of allocation within the remaining period of the Programme cannot be ruled out in audit

### **3.2 Physical Progress**

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According to the progress reports of the Programme, the overall physical and financial progress of the Programme at the end of year under review had remained at 37.41 per cent and 47.39 per cent respectively. The works under the main contracts of system rehabilitation for reduction of Non-Revenue Water in Northern and Eastern regions of the City of Colombo had shown slow progress of 45 per cent and 27 per cent respectively as at 31 December 2017. The delays in adopting of procurement process, changing of trenchless method to open trench method for pipe laying works and poor performance of the contractors etc, had influenced to slow progress on implementation of the activities of the Programme.

### **3.3 Contract Administration**

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The following observations are made.

- (a) It was observed that the completion dates of contracts awarded by the Programme under several components such as consultancy services on Non-Revenue Water and public awareness and media campaign for the Western Region of the City of Colombo had been determined as 21 February 2021 and 31 October 2020 respectively, beyond the date of completion of the activities of the Programme on 30 June 2019.
- (b) The works under the contract for system rehabilitation for Non-Revenue Water in the Northern Region of the City of Colombo had been commenced in January 2015. Therefore, the activities of pipe laying and pressure testing of 142,269 metres and 40,460 of house connections were expected to be completed in 16 District Metering Areas. However, after lapse of 2 ½ years as at 31 December 2017, out of 3 ½ years of the period of the contract, only pipe laying works of 03 District Metering Areas had been completed. Further, pipe laying works of 14,100 metres in other 03 District Metering Areas had not been commenced even up to 31 December 2017. As a result, only 5,981 house connections had been completed as at 31 December 2017.
- (c) The works under the contract for system rehabilitation for Non-Revenue Water reduction in the Eastern Region of the City of Colombo commenced in July 2015 and scheduled to be completed by July 2019 had shown a slow progress as at 31 December 2017. Therefore, the pipe laying and pressure testing works of 137,209 metres was expected to be completed in 20 District Metering Areas. However, the pipe laying works of 58,106 metres in 10 District Metering Areas had not been commenced even after lapse of 2 ½ years as at 31 December 2017, out of 4 years of the period of contract. As a result, only 1,039 house connections had been completed as at that date.
- (d) According to the bid document of the contract on system rehabilitation for Non-Revenue Water in the Northern Region of the City of Colombo, it was suggested to adopt pipe relining and pipe bursting method for the pipe laying purposes. However, the open trench method for pipe laying had been allowed to adopt, as proposed by the

contractor. However, the approval of the Committee appointed by the Project Director had only been obtained thereon instead of the approval of the National Water Supply and Drainage Board which required to be obtained as per Sections 3.1 and 13.2 of the bid document.

- (e) The public awareness programmes on the activities of the Programme had been scheduled to be commenced in May 2016, before the commencement of pipe laying works. However, such public awareness programmes had been commenced in November 2016 and a sum of Rs.2.93 million had been paid additionally without considering the subsequent changes of the scope of the pipe laying works.

### **3.4 Matters in Contentious Nature**

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The following observations are made.

- (a) It was observed that the provisions for security deposits amounting to Rs.23 million had been made in Bill of Quantities of the contract for system rehabilitation for Non Revenue Water in the Northern and Eastern regions of the City of Colombo. Therefore, the security deposits amounting to Rs.16.56 million had been made by the Project at the Road Development Authority, out of the proceeds of Loan instead of contribution of the Government of Sri Lanka.
- (b) As per initial design of the contract for pipe laying of system rehabilitation for Non-Revenue Water reduction in Northern region of the City of Colombo, the quarry dust is allowed to use for the backfilling purposes of the pipe trenches. Therefore, the Programme had procured quarry dust from an outside party at a rate of Rs7,755 per cube, as quoted by the contractor without considering the normal rate of Rs.6,800 per cube of quarry dust adopted by the National Water Supply and Drainage Board.

### **3.5 Issues on Financial Control**

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The following observations are made.

- (a) It was observed that claims made by the contractors engaged in 4 civil works contracts aggregating Rs.2,274 million had remained unsettled as at 31 December 2017. Therefore the possibility of paying off of delay charges on outstanding bills cannot be ruled out in audit.
- (b) The Programme had not taken action to appoint an Internal Auditor, as required by the Circular 02/2016 of the Department of Management Audit of 10 June 2016. Further, the activities of the Programme had not subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board.

### **3.6 Un-resolved matters highlighted in the Previous Audit Reports**

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The contract for the supply and installation of equipment for leakage detection at an estimated cost of Rs.24.37 million awarded to a foreign company on 29 May 2014 had been terminated subsequently under mutual agreements. However, several parts of the equipment which manufactured locally had been supplied by the Local Agent of the same company at a cost of Rs.10.62 million in the previous years. Further, the action had not been taken to procure the balance stocks of equipment even as at 31 December 2017.

### **3.7 Extraneous Transactions**

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The following observations are made.

- (a) According to the Programme documents, it was expected to allocate a motor vehicle to facilitate the teams of officers assigned to the Non-Revenue Water Sector in Colombo West area. However, a motor vehicle procured at a cost of Rs. 8.99 million had been allocated to the Regional Supporting Service Center of the Sabaragamuwa Province which was not an area under purview of the Programme.
- (b) It was observed that the salaries and allowances amounting to Rs. 2.12 million had been paid during the year under review to an employees of the Ministry of City Planning and Water Supply, eventhough there was no responsibility undertaken by the respective employee to implement the activities of the Programme.