

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 - 2017

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 for the first accounting 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. 3348 and Section 4.03 of Article IV of the Loan Agreement No. 3349 – SRI (SF) of 11 August 2016 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank along with the Section 2.10 of the Project Agreement dated 11 August 2016 entered between the National Water Supply and Drainage Board and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3, 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 objective of the Programme is to improve system efficiency and financial sustainability of water supply and wastewater services in Greater Colombo area. As per the Loan Agreements, the estimated total cost of the Programme amounted to US\$ 228.02 million equivalent to Rs.29,642.60 million and out of that US\$ 123 million equivalent to Rs.15,990 million was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank whilst US\$ 5 million equivalent to Rs. 650 million was agreed to be financed by Special Funds Resources of Asian Development Fund and US\$ 59.56 million equivalent to Rs. 7,742.80 million was agreed to be financed by the European Investment Bank (EIB). The balance amount of US\$ 40.46 million equivalent to Rs.5,259.80 million was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Programme, a sum of US\$ 55.63 million equivalent to Rs. 7,231.90 million had been allocated to implement the activities to be carried out by the National Water Supply and Drainage Board and US\$ 172.39 million equivalent to Rs. 22,410.70 million had been allocated for the activities of the expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Programme implemented by the National Water Supply and Drainage Board. The Programme commenced its activities on 03 November 2016 and scheduled to be completed by 30 June 2020.

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 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 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 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 Agencies, 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 withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the initial advance, 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.
- (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, 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 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 initial advance, 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 financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

As per the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the year ended 31 December 2017 is required to be submitted to the Auditor General on or before 31 March 2018. However, the financial statements of the Programme had been submitted only on 31 May 2018.

2.2.2 Accounting Deficiency

According to the disbursement schedule of the Department of External Resources, the Lending Agency had recovered commitment charges of US\$ 110,187 equivalent to Rs.16.79 million from the proceeds of the Loan as at 31 December 2017. However, the commitment charges related to the National Water Supply and Drainage Board had not been segregated and shown in the financial statements as required by the Section 4.12 of the Disbursement Hand Book of the Asian Development Bank.

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 up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Amount agreed for financing for the National Water Supply and Drainage Board		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million	US\$ million	Rs. million		Rs. million	US\$ million
<u>ADB</u>							
OCR	123.00	15,990.00	38.00	4,940.00	-	0.07	10.29
SFR	5.00	650.00	-	-	-	-	-
EIB	59.56	7,742.80	-	-	-	-	-
GOSL	40.46	5,259.80	17.63	2,291.90	-	-	-
Total	<u>228.02</u>	<u>29,642.60</u>	<u>55.63</u>	<u>7,231.90</u>	<u>=</u>	<u>0.07</u>	<u>10.29</u>

The following observations are made.

- A comprehensive detailed action plan highlighting financial and physical targets covering entire period of the Programme with fixing responsibilities to the respective officers to achieve the objectives of the Programme had not been prepared and implemented.
- The activities of the Programme had been commenced on 03 November 2016 and no budgetary allocations had been made for the year under review.

3.2 Physical Progress

As per the procurement plan of the Programme, 21 contract preparatory works on consultancy services, topographical surveys, geotechnical investigation, road mapping, hydraulic modeling and procurement of equipment for prioritized sub projects etc. were scheduled to be commenced during the year under review. However, only 08 contracts thereon had been awarded at the end of the year under review and no physical progress thereon had been reported as at that date.