

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 01 - 2018

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 for the year ended 31 December 2018 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. My comments and observations which I consider should be report to Parliament appear in this report.

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 the Ministry of City Planning Water Supply and Higher Education 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 in 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 (d) manage and implement investment projects. The activities of the project are implemented under 12 components. 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 was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 28 million equivalent to Rs. 3,696 million 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Programmes ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Programme's financial reporting process.

The Programme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Programme.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Programme.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

The following observations are made.

No	Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendation
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(a)	The interest and commitment charges aggregating US\$ 2.13 million equivalent to Rs. 329.85 million recovered up to 31 December 2018 by the Lending Agency had not been brought to account.	Understatement of balance of the Loan, interest and commitment charges.	As per the instructions received from the National Water Supply and Drainage Board interest and commitment charges was not accounted under the Project. Therefore, interest and commitment charges are disclosed in the notes of the accounts in the financial statements of the Programme.	The respective cost should be brought to account as enable to show the amount of the Loan utilized at the end of the year under review.
(b)	Replenishment amounting to US\$ 499,712 equivalent to Rs.84.59 million made during the year under review to the Special (Dollar) Accounts had not been brought to the financial statements. Further, the direct payments amounting	Understatement of work-in-progress and overstated cash balance.	Action will be taken to rectify the accounting errors.	The withdrawals and replenishments to the Special (Dollar) Account should be reconciled periodically.

to Rs.7.46 million made by the Lending Agency in September 2018 had not been brought to account. Further, the balances in the Special (Dollar) Accounts aggregating to Rs.17.87 million shown in the statement of financial position as at 31 December 2018 was not agreed with the corresponding balances aggregating Rs.95 million confirmed by the Central Bank of Sri Lanka.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Audit Issue	Impact	Response of the Management	Auditor's Recommendation
General Condition of the Contract Agreement	The bills certified by the site Engineers are required to be settled within 56 working days. However, the Programme had settled the bills valued at Rs.1956.50 million and US\$ 5.99 million with delays ranging from 58 days to 328 days and as a result, financial charges amounting to Rs.18.46 million	Additional financial charges to be incurred.	There was a delay of receiving funds from the Line Ministry to settle the contractors' bills.	Need to establish efficient mechanism with the agreement of the Line Ministry and General Treasury to settle the bills on due dates.

and US\$ 43,316.53
had been paid
during the year
under review.

3. Physical Performance

3.1 Physical progress of the activities of the Programme

Activity	Expected target	target achieved as at 31 December 2018	Impact	Response of the Management	Auditor's Recommendations
(a) System for Non-Revenue Water Reduction in Northern part of the Colombo City			Possibility to extend the period of the Project and possible increases of operational costs	Not commented.	Remedial action should be taken to expedite the works and need to monitor the progress on activities of Programme regularly by the Line Ministry and Implementing Agency.
- Laying of pipes	173,737 metres	120,042 metres			
- Water line connections/ Transfers	40,262 house holds	11,272 house holds			
- Establishment of District Metering Areas	16 Nos	05 Nos			
(b) System for Non-Revenue Water Reduction in Eastern part of the Colombo City.					
- Laying of Pipe	189,972 meters	79,767 meters			
- Water line connections/ Transfers	32,349 house hold	3,107 house hold			
- Establishment of District Metering Areas	21 Nos	03 Nos			
Construction of building at Maligakanda.	97 Per cent	70 Per cent	Possibility to extend the period of contract and	Not commented.	Remedial action should be taken to expedite the works and complete within

cost increases.
2019.

the period of the
Programme.

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The physical progress on contract for System Rehabilitation for Non-Revenue Water Reduction in Northern and Eastern Parts of Colombo City awarded on 30 October 2014 and 12 March 2015 respectively had shown slow progress as at 31 December 2018, due to decisions of the Project to apply the open trench method instead of trenchless method, manual works and permission for night work etc.	Possible increases of the cost of the contracts Accordingly.	Not Commented	The works under the Programme should be closely monitored by the Implementing and Executing Agencies of the Programme.

3.3 Extraneous Activities

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	According to the Project Administration Manual of the Programme, motor vehicles procured by the Programme were planned to allocate to the Non-Revenue Water teams in Regional Support Service Center of the Western Colombo. However, 02 motor vehicles procured at a cost of Rs.17.97 million had been allocated to the Regional Support Service Center in the Sabaragamuwa and UVA Provinces	Intended objectives will not be achieved	Not commented	The need of utilization of assets for the intended purposes is emphasized.
(b)	Contrary to the objectives of the Project, sums of Rs.2.12 million and Rs 1.3 million had been paid during the preceding year and the year under review as salaries and allowances of the employees of the Ministry of City Planning, Water Supply and Higher Education.		Not commented	Action should be taken to reimburse the cost from the Line Ministry.