

## **Greater Colombo Wastewater Management Project - 2018**

---

The audit of financial statements of the Greater Colombo Wastewater Management Project 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 2.09 of Article II of the Loan Agreements No.2557/2558 SRI dated 18 December 2009 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comment and observation which consider should be reported to the Parliament appear in this report.

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

According to the Loan Agreements of the Project, the Ministry of Internal and Home Affairs and Provincial Council and Local Government is the Executing Agency of the Project and the Colombo Municipal Council is responsible for the implementation of works within Municipal Council area and the National Water Supply and Drainage Board is responsible for the implementation of works within Kolonnawa Urban Council and Dehiwala / Mt. Lavinia Municipal Council areas. My observations on the activities carried out by the National Water Supply and Drainage Board are contained in this report. The objective of the Project is to improve the urban environment and public health services for the urban and sub urban residents in the Greater Colombo area by providing proper wastewater management service. The expected outcome of the Project is to improve the wastewater management services to 645,000 residents living in the respective areas. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 116.60 million equivalent to Rs.13,410 million and out of that US\$ 80 million equivalent Rs. 9,200.80 million was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank and US\$ 20 million equivalent to Rs.2,300.20 million was agreed to be financed by the Special Funds Resources of the Asian Development Bank. The balance amount of US\$ 16.60 million equivalent to Rs. 1,909 was scheduled to be contributed by the Government of Sri Lanka. Out of that, a sum of US\$ 12.60 million equivalent to Rs. 1,731.70 million of the total estimated cost of the Project had been allocated to the activities to be carried out by the National Water Supply and Drainage Board. Further, a subsidiary Financing Agreement was signed on 02 July 2010 between the Democratic Socialist Republic of Sri Lanka and the National Water Supply and Drainage Board to provide SDR 3.6 million (US\$ 5.64 million) equivalent to Rs. 647.68 million in a blend of 82.5 per cent as a Grant and 17.5 per cent as a Loan. The balance sum of US\$ 3.17 million equivalent to Rs. 364.35 million was agreed to be financed by the Government of Sri Lanka. The Project commenced its activities on 18 December 2009 and scheduled to be completed by 31 December 2014. Subsequently, the period of the Project had been extended up to 30 March 2017. However, the activities of the Project had been continued up to 31 December 2018 and submitted financial statements for the year ended 31 December 2018.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **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 Auditor's 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 Projects 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 Project's financial reporting process.

The Project 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 Project.

#### **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 the project’s internal control.
- 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.

	<b>Audit Issue</b>	<b>Rs. million</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendations</b>
(a)	Value added Tax paid up to 31 December 2018 had been set off against the Contribution received from the Government of Sri Lanka.	72.19	Understatement of the Contribution received from the Government.	Value Added Taxes paid can set off against Government fund.	The total contribution from the Government of Sri Lanka is required to be shown in the financial statements instead of net contribution received.
(b)	The balance remained in the Special (Dollar) Account as at 31 December 2018 had not been brought to the financial statements.	22.22	Understatement of the balance of the cash and cash equivalents at the year end.	Not properly commented.	The balance remained in the Special (Dollar) Account should be shown in the financial statements.

- |     |  |  |                |  |
|-----|--|--|----------------|--|
| (c) | As per the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2018 amounted Rs. 10.45 million. However, according to the financial statements of the Project, the corresponding value of work-in-progress amounted to Rs. 1.17 million. | Internal control systems Weaken                      | Not commented. | Need to reconcile the balances timely.   |
| (d) | Corresponding evidence such as bills submitted by the contractors on the withdrawal applications aggregating Rs. 198.15 million had not been submitted for audit.  | Transactions not supported by the adequate evidence. | Not commented  | Need to submit the supporting documents to verify the figures in financial statements. |

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

The Project had awarded contract to rehabilitation 06 waste water pump station at Dehiwala, Mt. Lavinia and Kolonnawa at US\$ 7.79 million equivalent to Rs,1,028 million in August 2014 and originally scheduled to be completed by December 2016. However, the Project had extended period of the contract upto 30 March 2017. Although the activities of the Project had been completed as at 31 December 2018, final bills on rehabilitation works had not been submitted even as at 30 May 2019, due to dispute arisen with the contactor.

#### 3.2 System and Controls

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) Eventhough the period of the Project was scheduled be closed on 31 December 2017 no action had been taken to	The position of the Project remained as at 31 December 2018 had not been shown in the	Not commented.	Instruction need to be issues by the Executing Agency to windup the activities of the Project.

windup the activities of the Project and handed over the assets and liabilities to the Executing and Implementing Agencies, due to arbitration issues raised by the contractor involved construction of pump houses. financial statements.

- |     |   |   |      |   |
|-----|---|---|------|---|
| (b) | The transactions of the Project during the year under review was not subjected to Internal Audit as required by the Financial Regulation 133 and the Management Audit Circular No. 02/2016 of 10 June 2016. | The internal control system weaken.                                   | -Do- | The service of an Internal auditor should be obtained to ensure the use of the fund of Project effectively. |
| (c) | The Project Completion Report had not been prepared, eventhough the activities of the Project had been closed as at 31 December 2017.   | The outcome of the activities of the Project could not been measured. | -Do- | The Project Completion Report need to be prepared at the end of the period of the Project.                  |