

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

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 for the year ended 31 December 2019 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 2.10 (a) of Article II of the Project Agreement No2947-SRI and 2948 (SF) 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 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 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 twice up to 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2019, 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 this 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 Programme's 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.

Nos	Accounting Deficiencies	Amount Rs. Million	Impacts	Responses of the Management	Auditor's Recommendation
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(a)	Value of work-in-progress had been understated by Rs. 103.54 million in the financial statements as mobilization advance amounting to Rs.95.44 million and retention amounting to Rs.8.1 million deducted from the interim payment certificate No. 18 of contract package 02 submitted during the year under review had not been brought to the financial statements.	103.54	Understatement of work in progress of the project	These amounts are related to the year-end accounting for contractors' bills payable. Based on auditors' recommendation, we will identify the mobilization advance and retention amounts when the year-end payable amounts are accounting in the future	Corrective actions should be taken to rectify the deficiency.
(b)	The interest and commitment charges aggregating to US\$ 3.8 million equivalent to Rs. 614 million recovered by the Lending Agency from the proceeds of the Loan as at 31 December 2019 had not been brought to the accounts as per the section 4.12 of the Loan Disbursement Hand Book of the Asian Development Bank. As a result, the proceeds of the Loan had been understated by similar amount.	614	Understatement of Loan balance, interest and commitment charges respectively by similar amount.	Project has not been accounted interest and commitment charges as per the instructions of Additional GM (Finance) (<i>Already provided with the response for other audit queries of GCWMMIIP</i>). However interest and commitment charges have been disclosed in the Project Financial Statements, Notes to the Accounts under the Note No. 19.	The respective cost recovered directly by the Lending Agency should be brought to the Financial statements as enable to shown amount of loan utilized at the end of the year.

(c) Rental of Rs.3.30 million payable to the Colombo Municipal Council and Urban Development Authority on land and vehicle park had not been brought to the financial statements	3.30	Understatement of the payables and work in progress of the Project.	These particular payment related documents were not received to the project until finalizing the financial statements of the project. Therefore, these bills are not accounted as payable. And also, project doesn't available any written agreement to assess the exact financial liability for accounting purpose.	Action should be taken to identify correct amount of payables during the year under review and brought to the financial statements.
(d) As per the reports of Department of External Resources (DRMS-814), the value of direct payments and replenishments for the year under review was Rs.1,905.27 million. However, as per the financial statements of the Project, it was shown as Rs.1, 908.08 million. Hence, difference of Rs.2.81 million had been observed between two balances. In this regard no action had been taken to reconcile the differences.	2.81	Overstatement of the direct payments	Direct payment of the project are updated based on the report of the Department of External Resources (814 report). However there is a considerable time gap of updating the report especially at the year end. In this year also 814 report was available to view only at the end of February 2020. Since project cannot wait until such time to finalize the financial statements, dollar transactions at the year-end were updated based on the exchange rate at the year-end date. Under or over adjustment due to the rate variation are taken into the accounts in the subsequent year considering the actual amounts reported in 814 report.	Replenishments and Direct payments during the year under review should be reconcile with the DRMS-814 report of the Department of External Recourses and rectify the Project financial statements Accordingly.

			Auditors identified difference mentioned here is due to that reason. Project cannot avoid such adjustments unless otherwise ERD issues the 814 report promptly.		
(e)	Value of interest on subsidiary loan, WHT and NBT taxes, salaries and material transfers aggregating Rs.145.97 million during the year under review had not been brought to the financial statements of the Project. As a result, work-in-progress of the Project was understated by similar amount.	145	Understatement of the work in progress	WIP reconciliation for the value differences between NWSDB ledger and the PMU books is already submitted to the auditors along with the response for NWSDB draft audit report.	After reconciliation made differences should be adjusted in the Financial statements accordingly.

3. Physical performance

3.1 Physical progress

Nos	Activities	Units	Expected target	Target achieved as at 31 December 2019	Impacts	Management Responses	Auditor's Recommendations										
(a)	System Rehabilitation for NRW reduction in Northern part of the Colombo City - Pipe laying - connections Transfers -Fully Completed DMAS -Overall progress of the contract	Meters house holders Nos percentag e	205,017 37,173 16 97.75	191,928 15,518 05 82.36	Delaying the construction and unable to complete the contract within scheduled contract period. As result, it was unable to reach the expected target of the 18 percent of Non-revenue water reduction in Colombo city	D) we forward the following details as at 30th September 2020.	Action should be taken to expedite the works within Schedule contract period and closely monitor the contract works by the Project monitoring unit.										
						<table border="1"> <thead> <tr> <th>Area</th> <th>Com mence ment</th> <th>Sche duled Com pletio n</th> </tr> </thead> <tbody> <tr> <td>Nort h</td> <td>Jan. 2015</td> <td>Dec. 2020</td> </tr> </tbody> </table>	Area	Com mence ment	Sche duled Com pletio n	Nort h	Jan. 2015	Dec. 2020					
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DMA s compl eted & hande d over to O & M	DMAs compl eted (NRW on going)	DM As near ing com pleti on	Com plet ed Pipe layi ng km	Com plet ed Hou se con nect ions													
5	8	3	205	31,714													

(b) System Rehabilitation for NRW Reduction in Eastern part of the Colombo City				
- Pipe laying	Meters	237,083	161,558	Delaying the construction and unable to complete the contract within scheduled contract period.
- Connection Transfers	House hold	25,256	1,098	
	Nos	20	03	
- Fully Completed DMAS	percentage	78.44	68.15	As result, it was unable to reach the expected target of the 18 percent of Non-revenue water reduction in Colombo city
- Overall progress of the contract				

However, it is observed that the NRW value is gradually decreasing below 39% and the average value of NRW is 15.2% up to now for the completed DMAs. The arrangements have been made to complete and hand over the balance DMAs at the end of this year 2020 to achieve the target of the project.

We forward the following details

DMA s completed & handed over to O & M	DM As completed (on going)	DM As nearing completion	Completed Pipe laying km	Completed House connections
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Action should be taken to expedite the works within Schedule contract period and closely monitor the contract works by the Project monitoring unit.

as at 30th September 2020.

Area	Comment	Scheduled Completion
East	July 2015	June 2021

4	7	4	212	27,464
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However, it is observed that the NRW value is gradually decreasing below 39% and the average value of NRW is 15.2% up to now for the completed DMAs. The arrangements have been made to complete and hand over the balance DMAs at the mid of the year 2021 to achieve the target of the project.

(c) Construction of NRW building at Maligakanda. Percentage 100 81.38

Delay of the completion of NRW building

PIU has taken several steps to push contractor to increase the resources input to the project, there were several meeting conducted in PMU with Contractor's Chairman (CEO) & other Key staff including special meetings conducted on 15th June 2020 in NWSDB (H/O) presided by General Manager (NWSDB) and on 7th Sept 2020, at Maligakanda Site, presided by Chairman (NWSDB). As the result of above meetings most of works are expedited (ceiling works, partition works, AC works, Fire installations and as per meeting decision an Escrow account has been opened by Link Eng & managed by NWSDB to ensure the

Closely monitor the progress of the works

- (d) Supply of leakage detection and all other equipment, and installation Contract was mutually terminated. Even though the Local purchases under this Contract was completed, new contract for Foreign purchases under this contract was awarded only on 10 June 2020
- Delay in supply of leak detection equipments.
- payments are directed to the works relevant to the construction of NRW Building.
- To purchase NRW equipment related to the foreign part of the previous contract, a new tender was called on 23.05.2018. However, due to the lack of technical qualifications of bidders, the tender was recalled on 03.04.2019 and finally it was awarded on 10.06.2020 under contract number GCWWMIP/ADB/EQUIP/ICB/07
- Closely monitoring the progress of the works.

3.2 Contract Administration

Nos	Audit Issue	Impacts	Management Responses	Auditor's Recommendations																																																								
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(a)	Contract for System Rehabilitation for Non-Revenue Water Reduction in Northern Part of the Colombo City was awarded in 2014 and, scheduled to be completed in July 2018. Subsequently, contract period had been extended up to February 2020. The pipe laying works of 205,017 metres are scheduled to be completed	Delaying the Non-Revenue Water Reduction in Colombo City Area as per the programme objectives.	We forward the following details as at 30th September 2020.	Action should be taken to expedite the works within Schedule contract period and closely monitor the contract works by the Project monitoring unit.																																																								
			<table border="1"> <tr> <td>A</td><td>C</td><td>Sc</td><td>DM</td><td>DM</td><td>DM</td><td>C</td><td>Co</td> </tr> <tr> <td>re</td><td>o</td><td>he</td><td>As</td><td>As</td><td>As</td><td>o</td><td>mpl</td> </tr> <tr> <td>a</td><td>m</td><td>du</td><td>com</td><td>com</td><td>nea</td><td>m</td><td>eted</td> </tr> <tr> <td></td><td>m</td><td>led</td><td>plet</td><td>plet</td><td>ring</td><td>pl</td><td>Hou</td> </tr> <tr> <td></td><td>en</td><td>Co</td><td>ed</td><td>ed</td><td>com</td><td>et</td><td>se</td> </tr> <tr> <td></td><td>ce</td><td>m</td><td>&</td><td>(NR</td><td>pleti</td><td>ed</td><td>con</td> </tr> <tr> <td></td><td>m</td><td>ple</td><td>han</td><td>W</td><td>on</td><td>Pi</td><td>nect</td> </tr> </table>	A	C	Sc	DM	DM	DM	C	Co	re	o	he	As	As	As	o	mpl	a	m	du	com	com	nea	m	eted		m	led	plet	plet	ring	pl	Hou		en	Co	ed	ed	com	et	se		ce	m	&	(NR	pleti	ed	con		m	ple	han	W	on	Pi	nect	
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and provide service transfers to 37,173 households in 16 district metering areas. However, pipe laying works of 191,928 metres had been completed as at 31 December 2019 and provided services only to 15,558 households. It was 201,606 metres pipe laying works and 19,508 service transfer to households as at 30 June 2020. However, 05 District Metering areas out of 16 had only been fully completed and handed over to involve the management of non-revenue water reduction as at 31 December 2019.

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h	20	20					
	15	20					

However, it is observed that the NRW

value is gradually decreasing below 39% and the average value of NRW is 15.2% up to now for the completed DMAs. The arrangements have been made to complete and hand over the balance DMAs at the end of this year 2020 to achieve the target of the project.

- (b) The expected targets on pipe laying works under the contract for System Rehabilitation for Non-Revenue Water Reduction in Eastern Part of the Colombo City was estimated to complete 237,083 metres and provide service transfers of 25,256 householders by 01 October 2020. However, only 161,558 metres of pipe laying works for 1,098 household in 20 District Metering Areas had been completed as at 31 December 2019 and 200,008 metres of pipe laying works and 4,030 service transfer to households had been completed as at July 2020. However, 03 District Metering Areas out of 20
- Delaying Revenue Reduction in Colombo City area as per the programme objective.
- Non-Water in

We forward the following details as at 30th September 2020.

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	em	Co	ted &	plete	ing	Pip	Hou
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Eas	July	Jun	4	7	4	212	27,4
t	201	e					64
	5	202					
		1					

Action should be taken to expedite the works within Schedule contract period and closely monitor the contract works by the Project monitoring unit.

However, it is observed that the NRW value is gradually decreasing below 39% and the average value of NRW is 15.2% up to now for the completed DMAs. The arrangements have been made to complete and hand over

District Metering Areas had only been fully completed and handed over to involve the management of non-revenue water reduction as at 31 December 2019.

the balance DMAs at the mid of the year 2021 to achieve the target of the project.

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| <p>(c) The contract for supply of leakage detection and all other related equipment and installation had been awarded at a cost of Rs.24.37 million to a foreign company on 29 May 2014 and it had been mutually terminated. Eventhough the equipment which should have been purchased under local part of this contract had been supplied by the local agent at a cost of Rs. 10.62 million, procurements required to be made from the foreign county under this contract had not been completed even as at 31 December 2019.</p> | <p>Delaying the supply of leakage detection equipments.</p> | <p>To purchase NRW equipment related to the foreign part of the previous contract, a new tender was called on 23.05.2018. However, due to the lack of technical qualifications of bidders, the tender was recalled on 03.04.2019 and finally it was awarded on 10.06.2020 under contract number GCWWMIP/ADB/EQUIP/ICB/07 R</p> | <p>Closely monitor the contract works.</p> |
| <p>(d) Contract for construction of 06 storied of non-revenue water building at Maligakanda had been awarded to the selected contractor at a contract value of Rs.344.25 million on 23 March 2017 and the contractor had commenced construction works on 24 April 2017 and scheduled to be completed by 23 October 2018. Due to the slow in progress of works the contract had been extended in three times up to 31</p> | <p>Delay of the Construction of NRW building.</p> | <p>PIU has taken several steps to push contractor to increase the resources input to the project, there were several meeting conducted in PMU with Contractor's Chairman (CEO) & other Key staff including special meetings conducted on 15th June 2020 in NWSDB (H/O) presided by General Manager (NWSDB) and on 7th Sept 2020, at Maligakanda Site, presided by Chairman (NWSDB). As the result of above meetings most of works are expedited (ceiling works, partition works, AC works, Fire installations and as per meeting decision an Escrow account has been opened by Link Eng & managed by</p> | <p>Prepare the short term action plans to the balance contract period highlighting priority works, simultaneously completed works with regard to fixing physical targets and responsibilities weekly and quarterly etc. and closely monitoring the progress thereby.</p> |

December 2020, According to the progress reports the overall physical progress of the contract had remained at 81.38 per cent compared with the expected progress of 100 per cent as at 31 December 2019 and it was shown 82.36 per cent as at 31 May 2020. Further, it was observed that the installation of air conditions, partition works, ceiling and electrical works, plumbing works and painting works etc. had not been completed at the time of physical inspection carried out on 19 August 2020.

- (e) Even though the constructed three storied Area Engineer's office building at Ellie House was handed over to the National Water Supply and Drainage Board on 02 May 2019, defects such as rain water leaking from the upper slab, some windows and fixed glass covered at main stair case, damages of the fittings of doors and windows, defects in roof canopy of the second floor, paint work of the stores floor area and tiling works had been observed in the physical inspection carried out on 19 August 2020. However, Project had failed to identify those defects and rectify the respective defects within defect liability period.

Defects had not been identified and rectified properly

NWSDB to ensure the payments are directed to the works relevant to the construction of NRW Building. Also, material required for Partitions, Fire protection systems and sanitary fittings were received and those works are in progress.

Since this building is having an addition of two more floors on top of it in the future, waterproofing has been done on the roof slab to curtail any leakage through the slab, as recommended by Design Section (GCWWMIP). There were minor leakages found & rectified by the contractor already. There were wet patches found in slab soffits and adjacent walls due to the water leak of the roof slab. Those inter-related defects which have been appeared in EA room was also rectified by the contractor. Further, contractually the warranty period for these waterproofing works is 10years effective from 31st December 2018. It is contractor's obligation to attend any new appearance of leakage within the said period. There were water seeping through some windows and the fixed glass covered at main staircase. Main staircase windows had been rectified by the contractor, by adapting a method such as sealing with sealant after preparation

Action should be taken to rectify the defects

around the windows.

Some of the door handles and locks are not in working condition and that might have occurred due to improper handling of the items for last one-year usage. But it's even not listed in the defects list notified on 26th Feb 2020 by O&M Section. However, the contractor has been informed to attend to those defects as soon as possible.

3.3 Extraneous Activities/Payment made out of Project Objectives

Nos	Audit Issue	Impact	Management Responses	Auditor's Recommendations
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(a)	As per the Project Administration Manual of the Programme, 07 Nos of crew cabs purchased at a cost of Rs.62.90 million under the Programme Project – 01 for the Non-Revenue Water Reduction team in Regional Support Service Centre of Western Central. However, 02 nos. of crew cabs procured at a cost of Rs.17.97 million had been transferred to the Regional Support Service Centers of Sabaragamuwa and Uva which were not come under the purview of project area. Further, those crew cabs had not been taken over to the Non-Revenue Water team in Regional Support Service Centre - Western Central even as at 31 August 2020.	Project resources utilized for outside purposes	These crew cabs were purchased as per the procurement plan of the project under the vehicle for O&M activities. Accordingly, project has handed over the vehicles to O&M Western Central which is within the scope of the project.	The real need of the procurement is required to be identified and utilized the need of utilization of assets for the intended purposes is emphasized.

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|---|--|--|---|
| <p>(b) A sum of Rs.1.05 million had been paid as salaries and fuel allowances of the two employees of the Ministry of Water Supply during the year under review without attending to the activities of the Project.</p> | <p>Project funds utilized for outside purposes. As a result, Project cost increase by unrelated expenses</p> | <p>These payments were made with a board approval considering their coordination activities between the ministry as the implementing agency and the NWSDB as the executing agency. However these service are now terminated.</p> | <p>Action should be taken to reimburse the cost from the Line Ministry.</p> |
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3.4 Matters in Contentious Nature

Audit Issue -----	Impact -----	Management Responses -----	Auditor's Recommendations -----
<p>The contract for public awareness and media campaign in Greater Colombo area had been awarded at a cost of Rs.81.44 million and incurred a sum of Rs.31.15 million for the respective activities as at 31 December 2019. However, the Project had failed to achieve the main objective of the Programme - Project 01 even as at 31 December 2019. In addition, a sum of Rs.65.03 million had also been allocated for capacity building of communities by the other similar project called Programme -Project 02 in Greater Colombo area and incurred Rs.41.82 million up to 31 October 2019. However, significant amount of Project funds had been allocated and incurred only for the public awareness and capacity building of the Greater Colombo area was questionable in audit.</p>	<p>Considerable amount of Project funds allocation and incurred for public awareness only for Colombo city.</p>	<p>Greater Colombo water wastewater improvement investment programme is a special intervention compare to the conservative regular projects. New projects mostly welcomed by the respective community as they are getting new services but this project facing more disturbance as it is dealing with the community which has water facilities already. This project deals with around 01 Million people including 600,000 residents and 400,000 commuters daily. Further it provided water services to around 100,000 people in low income settlements. Considering the requirement of massive awareness among community PPTA has recommended to assign NGO for Community Mobilization and Behavioral Change and consultants for Awareness Generation and Media activities</p>	<p>Significant amount of Rs.81.43 million had been allocated by similar two Project for public awareness for Colombo city. There for it should be revised due to change the method of pipe laying.</p>

3.5 System and Controls

Audit Issues	Impacts	Management Responses	Auditor's Recommendations
<p>The Programme Project -01 had not taken action to appoint an Internal Auditor, as required by the Circular 01/2017 of the Department of Management Audit of 15 February 2017. Further, the activities of the Programme had not subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board.</p>	<p>Poor control over financial and operational activities of the Project may adversely affect the Project performance.</p>	<p>Get the response from IA section, However, replied had not been received.</p>	<p>Actions should be taken to appoint an Internal auditor</p>