

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 - 2022

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 for the year ended 31 December 2022 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 No. 2947-SRI and 2948-SRI (SF) dated 28 June 2013 entered in to between the National Water Supply and Drainage Board and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Project and Loan Agreements of the Programme - Project 1, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and National Water Supply and Drainage Board is the implementing Agency of the Programme - Project 1. The objectives of the Programme - Project 1 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 - Project 1 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 percent 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 percent is expected to be contributed by the Government of Sri Lanka. The Programme - Project 1 had commenced its activities on 25 September 2013 and scheduled to be completed by 31 December 2016. Subsequently, the period of the Programme - Project 1 had been extended three times up to 30 June 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme -Project 1 as at 31 December 2022 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.

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

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 scepticism 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 - Project 1
- 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 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Responses of the Management	Auditor's Recommendations
Financial Regulation No.128(1) e, No.507, No.756	It is required to complete the process of annual board of survey in each year before submission of the annual financial statements to the audit. However, it had not been done even at the date of audit 10 April 2023	Every year, the Board of Survey is carried out. The relevant document will be sent soon.	Action should be taken to comply with rules and regulations.

3. Physical Performance

3.1 Physical progress of the activities of the Project

As per the progress report, the Project was executed with the objective of reducing the non-revenue water in Colombo city from 49 percent to below 18 percent and which had been involved to pipe laying works of 466,165 meters and provide connection transfers to 62,840 house holders in 36 district metering areas (DMAS) and reduce NRW under the rehabilitation and expand water supply system of Northern and Eastern part of Colombo city. The project had been completed and handed over to the National Water Supply and Drainage Board by the end of the year under review. However, it was observed that the expected objective of the project had not been achieved.

3.2 Contract Administration

No	Audit Issue	Responses of the Management	Auditor's Recommendation
(a)	This project was initiated with the aim of reducing the percentage of non-revenue water from 49 percent to below 18 by covering 16 district metering areas in Northern Part of the Colombo City and 16 DMA meters with the value of USD 139,410.46 equivalent to Rs. 20.73 million had been installed in the Northern part of Colombo city to obtain the water flow data to see whether the target of the project have	It is important to note that the 13 flow meters observed during the audit are not defective and there was an issue with the flow meters due to discharged batteries. To address this issue, the project has taken action to replace the discharged	Action should be taken to rectify the existing issues and get expected outcome from the project.

- been achieved. However 13 DMA meters out of 16 above had been remained as defected at the audited date of 30 March 2023.
- (b) 16 Nos DMA meters had been purchased by the project in 2016 and 2017 and according to the supply conditions, the respective supplier had given a 03 year manufacture warranty from the date of purchase for them. However, those meters had been installed in years 2018, 2019, 2020 and 2021. And it was observed in the audit that warranty period of 13 meters had expired even at the time of installation.
- (c) 21 DMA meters with Value of Rs 26.87 million equivalent to USD 180,863.6 had been installed under the ICB 02 Contract in order to calculate the Non-revenue water percentage rates in 20 district metering areas in the eastern part of Colombo city. However, 11 meters out of 21 had been remained as defective as at 30 March 2023. Further it was observed that a maintenance service agreement had not been signed with a suitable local agent to obtain the required maintenance after the manufacturing warranty period and 3 year warranty period of 18 out above 21 DMA meters had expired at the time of installation.
- (d) NWSDB has established a Non-revenue water management unit in NRW building at Maligakanda with 6 officers to monitor the
- batteries with new ones. Once the batteries are replaced, flow measurements can be obtained, enabling accurate calculation of the NRW value.
- The intention was to install the flow meters promptly after the completion of the District Metered Areas (DMAs) work, with a delay of completing the DMAs the scheduled programme was collapsed. Consequently, the installation of the flow meters was delayed, causing the warranty period to expire before their installation take place.
- There was an issue with the flow meters due to discharged batteries. To address this issue, the project has taken action to replace the discharged batteries and Once the batteries are replaced, flow measurements can be obtained. A local expert institution has been selected to handle the maintenance of the installed flow meters.
- NRW management unit officers are responsible for monitoring NRW
- Project activities should have to be executed according to a work plan.
- Immediate action should be taken to rectify the defectives and to keep maintenance of the installed flow meters.
- Action should be taken to utilize NRW management

<p>non-revenue water percentage in Colombo city and the function of this Unit basically depend with the data collected from DMA meters. Since most of the meters installed were being damaged, the works of that office were not being functioned as planned and overall performance of the project could not be measured.</p>	<p>using multiple sources of data, including District Metered Areas (DMAs) flow meters, as well as using alternative methods such as SIV meters. The officers actively monitor the leaks in the distribution system, diligently identifying and detecting any leaks that may occur. By promptly addressing and rectifying these leaks, they contribute to the overall reduction of NRW and the efficient management of water resources.</p>	<p>unit efficiently to achieve the objectives of the Project.</p>
<p>(e) According to the data collected from the Non-revenue Water Management Unit, the ratio of non-revenue water in the 2 district measurement areas of 4A and 9B, which are included in the 16 district measurement areas where pipe laying was carried out under the ICB-1 contract. It had been reached a high value of 38.92 percent and 24.46 percent respectively by the end of the year under review.</p>	<p>The officers working under the NRW section have the responsibility of addressing these issues related to NRW such as leaks, defective meters, illegal unmetered connections, etc. and actively working to reduce the overall NRW value.</p>	<p>Immediate action should be taken to resolve the issues such as illegal connections, leaks and defective meters.</p>
<p>(f) The action had not been taken to capitalized the assets in relation to the handed over Water transmission and distribution systems in 16 district measurement areas and NRW building at Maligakanda, even it had passed a year after the project completed and handed over to the National Water Supply and Drainage Board.</p>	<p>Asset Capitalization process is on-going</p>	<p>Immediate action should be taken to fully complete the capitalization process.</p>

- (g) A contract valued at Rs.11 million to build a water meter testing workshop at main store premises in Ratmalana had been awarded to a private contractor with an advance payment of Rs.2.2 million in the year 2014, after having Rs.2 million and Rs. 611,625 valued advance payment guarantee and performance guarantee respectively which were issued by a private Bank with a validity period up to 17 November 2015. Even though after a lapse of 09 years from the date of awarding the contract by April 2023, the contractor had not done any work related to the contract and the management had not taken any action to extend the period of the advance payment guarantee or encash those guarantees. Due to this negligence, the project had to incur an uneconomic expenditure of Rs.2.2 million
- The contractor has given forge documents and Legal action has been initiated by NWSDB against the relevant party to recover the losses.
- Action should be taken to recover the financial losses from the contractor or responsible officers.

3.3 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Even though it had completed a year after handed over all roads where pipelines were laid to the Colombo Municipal Council, no action had been taken to recover the Rs.109 million valued security deposits done regarding constructions carried out by the project.	Already requested the CMC to release the security deposits for the handed over roads.	Action should be taken to recover the security deposit without further delay.
(b)	Rs.69 million valued fixed assets had not been handed over to the National Water Supply and Drainage Board even it had passed a year after completion of the project.	Handing over is under process	Immediate action should be taken to handover the assets in formal way to the NWSDB.
(c)	As per the management Circular No.05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit section of the National Water Supply and Drainage Board.	It is noted and informed to the internal audit for necessary actions.	Action should be taken to conduct Internal Audits on internal control procedures