

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 - 2022

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 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. 3029 SRI and 3030 SRI (SF) dated 03 June 2014 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 2, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Programme - Project 2. The objective of the Programme Project 2 is to improve efficiency and financial sustainability of water supply and wastewater services in the Greater Colombo area. As per the Loan Agreements, the estimated total cost of the Programme - Project 2 amounted to US\$ 118 million equivalent to Rs.15,340 million and out of that US\$ 70 million equivalent to Rs.9,100 million or 59.3 percent of the total estimated cost of the Programme - Project 2 was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank and US\$ 18 million equivalent to Rs. 2,340 million or 15.3 percent of the total estimated cost of the Programme - Project 2 was agreed to be financed by the Asian Development Fund. The balance amount of US\$ 30 million equivalents to Rs. 3,900 million or 25.4 percent was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Programme - Project 2, allocation of US\$ 107.05 million equivalent to Rs. 13,917 million had been made for the activities of the Programme - Project 2, expected to be carried out by the National Water Supply and Drainage Board whilst US\$ 10.95 million equivalent to Rs. 1,423 million had been allocated for the activities of the Programme - Project 2 expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Programme - Project 2 implemented by the National Water Supply and Drainage Board. The Programme - Project 2 had commenced its activities on 03 September 2014 and scheduled to be completed by 30 June 2019. Subsequently, the period of the Programme - Project 2 had been extended up to 24 October 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the 2 : 1 of this Report the accompanying financial statements give a true and fair view of the financial position of the Programme - Project 2 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 Qualified 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 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 - Project 2.
- 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

No	Accounting Deficiencies / Audit Issue	Amount Rs. million	Responses of the Management	Auditor's Recommendation
(a)	The remaining advance recovery amount of USD 2 million equaling to Rs.745 million which paid to the ICB 04 main contractor under foreign component and the foreign exchange variation of Rs. 689 million had not been brought to the financial statement.	1,434	Adjustment Journal Entry Has been passed for the said amount in the year of 2023.	Action should be taken to avoid this kind of accounting deficiencies in future
(b)	Total amount of exchange rate fluctuation differences in relation to the mobilization advances given to 03 sub-contractors from foreign currency had been credited to the civil works account instead of being credited to the exchange rate fluctuation account.	285	Journal Entry has been passed as a correction entry in 2023.	Action should be taken to avoid this kind of accounting deficiencies in future

2.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliance / Audit Issue	Responses of the Management	Auditor's Recommendation
(a)	Financial Regulation No 502(2).	Fixed asset register had not being maintained	In the Project Management Unit, we maintain an inventory record, since all the assets are temporarily hold in PMU and from time to time those assets are transferring to the Head office.	A fixed assets register should be maintained in accordance with the Financial Regulation.
(b)	Financial Regulation No.128(1) e, No.507, No.756	Although the annual board of survey should be completed before the submission of annual financial statements, 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

The Project commenced its activities on 03 September 2014 and according to the basic agreement and the implementation plan it scheduled to be completed by 30 June 2019. However, the management failed to achieve the expected target and the period of the Project had to be extended up to 22 October 2022. Even it has spent two months after the extended period, overall physical and financial progress of the Project at the end of the year under review was 89.92 percent and 83.28 percent respectively. As per the progress report of 2022 and details submitted to the audit, the programme of system rehabilitation for NRW reduction in western part of the Colombo city had been almost finished and the progress of the other part of the project are as follows.

Activities	Units	Expected target	Target achieved as at 31 December 2022	Audit Issues	Responses of the Management	Auditor's Recommendation
System Rehabilitation for NRW reduction in Southern part of the Colombo City - (ICB 04)	Meters	211,032	212,093	Expected target may not be achieved with in the time given.	Pipe laying, pressure flushing and disinfection have been completed. Transferring of	Target should be achieved within the time given
– Pipe laying	House hold	28,882	16,323			

<p>– Service Transfers</p> <p>DMA progress (Fully Completed and handed over to RSC)</p>	<p>Nos</p>	<p>23</p>	<p>01</p>	<p>service connection is in progress. 08 DMAs have been handed over to the O & M for operations and others will be handed over soon after PZT is completed.</p>
<p>– Over all progress of the contract</p>	<p>Percentage</p>	<p>100</p>	<p>85.3</p>	

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>As per the progress reports of the project, only 57 percent of providing house connection transfers in relation to the Stage-2 had been completed and out of 23 DMAs which should be completed and handed over to the NWSDB only one had been handed over at the end of the year under review. Further, there were balance works such as, providing 12,559 house connection transfers, pressure testing works of 140,640 meters, permanent road reinstatement works of 149,109 flushing and disinfection works of 174,098, balance installation valve chambers, road crossing works and decommissioning works to be completed before 31 July 2023 when the date of completion of the project.</p>	<p>The works under the Package 03 and Package 04 have been completed as described 4.1.1 and 4.2.2 above. The completion of balance works is being continued by the Contractors as per the work schedules submitted by them. The all works under these two Contracts will be completed by 30 June 2023.</p>	<p>Remedial action should be taken to complete the balance works of the project.</p>
(b)	<p>25 DMA meters valued Rs. 31.5 million had been installed under the ICB contract 03 and 04 in 19 and 23 District metering area of Southern part of the Colombo city and 19 DMA meters with the value of USD 164,167 equivalent to Rs. 24 million had been installed under the ICB 03 contract in the Western part of the Colombo city to collect Water flow meter data. However 30 DMA meters out of 44 above had been remained as defected at the date of 30 audit March 2023.</p>	<p>To address the issue of discharge batteries the project has taken action to replace those batteries with new ones.</p>	<p>Action should be taken to get expected outcome of the project.</p>

(c)	19 meters were purchased in the years 2016 and 2017 with a three year warranty period. Further it was observed that the warranty period of 16 meters had been expired at the date of installed and all meters were been installed after laps of two years from the date of purchase. Even though the maintenance period for one year after commissioning date given by the supplier had also been expired.	The installation of the flow meters was unavoidably delayed, resulting in the expiration of the warranty period before their installation take place.	Immediate action should be taken to reduce the loss.
(d)	All the procurement activities of this project should be completed before the date of 24 October 2024. The action had not been taken to purchase DMA and Logger meters for the remaining 17 district metering areas.	The reason for their inability to provide flow measurements is discharged batteries. However, once the batteries are replaced, the flow meters will be fully functional.	Immediate action should be taken to complete the meter installation process and to keep maintenance of the installed flow meters
(e)	Although the main objective of the project was to keep the NRW ratio lower than 18 percent, According to the data collected from the Non-revenue Water Management Unit, the ratio of non-revenue water in the 2 district metering areas of 12 A and 22, which are included in the 19 district metering areas where the pipe laying was carried out under the ICB-3 contract, had been reached a high value of 25.80 percent and 24.88 percent respectively by the end of the year under review	The reason for the high non-revenue water (NRW) is the presence of leaks in the existing network, and leak detection works are currently in progress. Once the leaks are detected and repaired, the NRW value is expected to decrease.	Immediate action should be taken to resolve the issue of illegal connections, Leaks and to keep NRW percentage below 18 percent.

3.3 Extraneous Activities/Payments made out of the Project Objectives

Audit Issue	ManagementResponse	Auditor's Recommendation
Project had spent Rs. 3.5 million to purchase 1,940 uniforms for Meter reading staff of NWSDB contrarily to the objectives of the project.	The mentioned payment for the uniforms is based on approved tender procedures, and payment procedures as well as proper ADB approvals.	Project management should always adhere to utilize project funds for the activities within the project scope.

3.4 Idle / Unutilized / Underutilized Resources

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Thelawala Training Center which was built at a cost of Rs. 1,550 million and was opened on December 2022 with the capacity of using commercial basis. During the first quarter of the year 2023, total	The training Center has been handed over to the O & M and open by them. The management of CEWAS is actively seeking to promote and publicize the training center through various	Action should be taken to utilize the total assets in effective manner.

expenditure and the income was Rs.7.58 million and Rs.4.32 million respectively. Further it was observed that the Rs.7.22 million valued fully furnished office premises, 2 Nos computer labs, a library, and a gym with the value of Rs.4.1 million exercise equipment were being idled.

channels. By successfully implementing these publicity efforts, CEWAS can attract more opportunities and expand its range of services.

- (b) This project had been started with the objective of reduce non-revenue water percentage below 18 percent and it scheduled to be completed on 2022. However, only 07 DMAS out of 42 had been fully completed and handed over to the NWSDB even after a lapse of 99 months from the date of commenced. However, the loan repayments have been started and paid Rs. 2, 902.76 million and Rs. 9.27 million as commitment charges and Rs. 295.86 million as interest had been paid by the government at the date of 31 December 2022.

As per the information provided under item 4.1.1, 4.1.2, and 4.1.3, the work under the ICB 03 and ICB 04 contracts has been successfully completed, and only the remaining work is in progress. It is expected that all the District Metering Areas (DMAs) can be handed over to the Operations and Maintenance (O & M) team by the time the ADB loan is closed.

Action should be taken to achieve the objective of the project.

3.5 Matters pointed out in previous audit reports which remain unresolved

Audit Issue	Response of the Management	Auditor's Recommendations
<p>Construction of area engineer office at Pamankada was scheduled to be done under the project and it was not commenced due to not availability of a land for construction and approvals had not been given by ERD for new constructions since the existing time of the project was not enough to complete. As a results Rs.28.19 million of consultancy fees and Rs.1.45 million of land acquisition charges incurred up to 31 December 2022 for that purpose had been become as a loss for the project.</p>	<p>The Construction of the proposed building was temporarily suspended, however, this design can be used at any time once we receive the approval</p>	<p>Any losses which have to be occurred due to negligence of the officials should be recovered in accordance with Finance regulations</p>

3.6 Project Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	An action had not been taken by the Project to recover the security deposit valued at Rs.16.04 million in respect of 45 roads which had been completed and handed over to the Colombo Municipal Council under the ICB-4 contract in the years 2019, 2020 and 2021.	Time to time the request letters have been sent to CMC with reminders to recover the balance security deposit.	Action should be taken to recover the security deposit without further delay.
(b)	Rs.5,434,112 valued fixed assets had not been handed over to the National Water Supply and Drainage Board even it had spent 6 months after the completion of the project at the end of the year under review.	Handing over is under processing	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.