

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2022

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 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. 3348 SRI dated 11 August 2016 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 3, then Ministry of City Planning and Water Supply, 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 3. The objective of the Programme – Project 3 is to improve system 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 3 amounted to US\$ 228.02 million equivalent to Rs. 29,642.60 million and out of that US\$ 123 million equivalent to Rs.15,990 million was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank whilst US\$ 5 million equivalent to Rs. 650 million was agreed to be financed by Special Funds Resources of Asian Development Fund. In addition, US\$ 59.56 million equivalent to Rs. 7,742.80 million was agreed to be financed by the European Investment Bank (EIB). The balance amount of US\$ 40.46 million equivalent to Rs. 5,259.80 million was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Programme – Project 3, a sum of US\$ 55.63 million equivalent to Rs. 7,231.90 million had been allocated to implement the activities to be carried out by the National Water Supply and Drainage Board and US\$ 172.39 million equivalent to Rs. 22,410.70 million had been allocated for the activities of the expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Programme – Project 3 implemented by the National Water Supply and Drainage Board. The Programme – Project 3 had commenced its activities on 03 November 2016 and scheduled to be completed by 30 June 2020. Subsequently, the period of the Programme – Project 03 had been extended up to 31 July 2023.

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 3 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 3 .
- 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

| Accounting Deficiencies / Audit Issue | Amount Rs. million | Responses of the Management | Auditor's Recommendation |
|--|--------------------|---|---|
| The remaining retention payable amount of USD 457,711.69 related to the ICB 02 main contractor had not been revalued using closing rate as at 31 December 2022. Hence, closing retention payable balance had been understated. | 156 | Agreed. Adjustment will be done this year – 2023. | Correct value of retention payable should be accounted. |

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). | The project had not been maintained a fixed asset register including updated details of all fixed assets acquired by the project | In the Project Management Unit, we maintain an inventory record since all the assets are temporarily hold in PMU and those assets are being transferred to the Head office from time to time. | Fixed assets register is need to be maintained to keep the records on fixed assets which are used by the PMU. |
| (b) | Financial Regulation No.128(1) e, No.507, No.756 | Although the annual board of survey should be completed before submission of the 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 and financial performance

3.1 Physical and financial Progress

The activities of the Project comprised with 03 components and US\$ 38 million equivalent to Rs.4,940 million had been allocated to carry out the activities of those 3 components. Out of that, US\$ 35 million equivalent to Rs.4,550 million had been allocated for additional financing to fill the financing gap for Project 01 and 02 and balance US\$ 3 million equivalent to Rs.390 million had been allocated for the Project Development assistance works. However, out of US\$ 38 million only

US\$ 24.85 million equivalent to Rs 6088.54 million (According to the existing currency rate) which represent 65.40 percent had only been utilized as at 31 December 2022 even after a lapse of 6 years from the commencement of the Project.

3.2 Delays in implementation, completion of Project activities and underutilized of funds

| Audit Issues | Response of the Management | Auditor's Recommendations |
|--|--|--|
| <p>As a result of low performance of the project as mentioned in the paragraph 4.1 of this report, Significant delays were shown in disbursements of funds and due to that delay amount of Rs. 54.5 million had been charged by the Lending Agency as commitment charges. Further, it was observed that there is an uncertainty to utilizing the balance amount of loan US\$ 13.15 million representing 34.6 percent of the total loan value prior to the extended date of the loan with the slow moving of the project.</p> | <p>All works of the contracts awarded under the project have been satisfactorily completed. Both the statement of completion and final bills have been duly submitted, and the Payment Certificates (IPCs) are prepared for payment. However, as the contract amount has been exceeded more than 15% of the contract amount due to variation orders and scope changes, payments cannot be made without the SCAPC approval.</p> | <p>Action should be taken to expedite the works and complete the balance works with in the scheduled period.</p> |

3.3 Extraneous Activities/Payments made out of the Project Objectives

| No | Audit Issue | Responses of the Management | Auditor's Recommendation |
|-----|---|---|--|
| (a) | <p>Senior engineer who was recruited by the Project with monthly salary of Rs. 180,000 had been assigned for another Foreign funded project as work supervisor and a sum of Rs. 2.71 million had been paid as salary for the period of 15 months using the funds of this project and action had not been taken to reimburse that money.</p> | <p>The Senior Engineer recruited under the project had the experience in water treatment, O&M activities and NRW management. Hence, he was assigned for GCWWMIP and other projects to share his knowledge and advice the project staff in O&M and NRW management.</p> | <p>Action should be taken to make salary payment only services involved to the project.</p> |
| (b) | <p>The contract to amend the Act of National Water Supply and Drainage Board had been awarded to a special consultant and Rs. 1.32 million paid for that purpose using project money.</p> | <p>The necessary approvals are taken in order to make the payment.</p> | <p>Project management should utilize the project funds always for the activities within the project scope.</p> |

3.4 System and Controls

Audit Issues

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.

Responses of the Management

It is noted and informed the Internal Audit for necessary actions.

Auditor's Recommendations

Action should be taken to conduct Internal Audits regularly