

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 - 2023**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 for the year ended 31 December 2023 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 equivalents 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 29 February 2024.

### **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 2023 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 Recommendations
(a)	A sum of Rs.870 million had been paid to ICB 3 main contractor to open LC for purchase of domestic water meters to the National Water Supply and Drainage Board and that amount had been written off from the GOSL contribution, instead of account as a receivable from the Board.	870	This approach has already been reviewed by SCAPC during the Contract Price enhancement approval stage and it has recommended paying the same via GOSL counterpart funds with necessary cabinet approval for the purchase of materials outside the Contract Scope. Now we are in the process of obtaining the necessary Cabinet Approval.	Project funds should not use for other activities other than the objectives of the project without having proper approval, and action should be taken to correct the accounting error.
(b)	Valued connection materials amounting to Rs. 1657.87 million and chemicals amounting to Rs. 293.85 million had been purchased for the Board using project funds and the respective expenditure had been recorded as project expenditure in the Financial Statements instead of record as receivables from the Board. As a result the value of working progress of ICB 4 and ICB 3 contracts had been overstated by Rs 1657.87 million and Rs. 293.85 million respectively.	1,951.72	This approach has already been reviewed by SCAPC during the Contract Price enhancement approval stage and it has recommended to pay the same via GOSL counterpart funds with necessary cabinet approval for the purchase of materials outside the Contract Scope. Now we are in the process of obtaining the necessary Cabinet Approval.	Special attention need to be paid to use the Project funds within the scope of the Project and in a special requirement, prior approval from relevant authorities should be taken before release the funds.
(c)	Project funds amounting to Rs 12.3 million had been used to settle the expenditure incurred after the disbursement closing date of another project ( loan No 2948-SRI), it was observed that the main contractor of ICB 03 (China Harbor Engineering – China Geo Corporation Joint venture) had deposited a sum of Rs. 10.7 million to	12.3	When ADB requested the refund of 2948-SRI, USD 28,543.22 we have requested Addl. GM (Finance) to arrange the GOSL fund of the Project or Board funds. However, at that fund was not available in both	Action should be taken to rectify the issues and Project funds should not use for other activities other than the objectives of the project without having proper approval, and

the Bank account of National Water Supply and Drainage Board as per the written instructions given by the Project Director on 03 January 2023. The NWSDB had used that money to refund the unused advance balance of USD 28,543 as mentioned above violating the main objective of this Project.

GOSL and Board funds. action should be taken Hence, with approval of to correct the General Manager accounting error. (NWSDB), the repayment was arranged through ICB-03 Contractor. And as per the Contract, all the works executed under Provisional Sum item it is required to pay the Contractor's Overhead & Profit of 15%.

- (d) In order to settle the above transaction, the Project had paid a sum of Rs. 12.3 million to the Contractor including his commission which was Rs.1.6 million via Variation Order and accounted that amount as ADB loan and a Civil work expenditure of the project II. Accordingly, the value of ADB loan and civil work in progress account had been overstated by the same amount. Finally, a sum of Rs. 10.7 million had been written off from the Civil work in progress account against the Government contribution instead of recognized as fund receivable from NWSDB. Even though the amount of Rs.12.3 million had been erroneously debited to the capital work-in-progress account only Rs.10.7 million had been credited to the work in progress account to correct the error. As a result, difference of Capital working progress had been overstated by Rs. 1.6 million. Further, it was observed that amount of Rs.1.4 million foreign exchange gain occurred due to that transaction was retained in the Water Supply Board, had erroneously been identified as a foreign exchange loss in the financial statements instead of recognized as fund receivable from NWSDB.

Agreed

Action should be taken to rectify the error and to follow the correct accounting procedures in future.

(e)	Gratuity payment of Rs.6.99 million had not been taken into account during the year under review; Hence, total gratuity cost of the project was understated by same amount.	6.99	Agreed. And will correct the gratuity cost accordingly	Action should be taken to keep correct accounting records.
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## 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	Necessary action has been taken, capturing of Fixed assets is under way.	Should be complied with Financial Regulations.
(b)	Financial Regulation No.128(1) e, No.507, No.756	Although the annual board of survey should be completed before submission the annual financial statements, it had not been done even at 02 May 2024.	Agreed. Arrangement has been taken to finish within one month time	Should be complied with the Financial Regulation

## 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 on 30 June 2019. However, the expected target of the project could not be achieved and the period of the Project had been extended up to 29 February 2024. As per the information given, the overall physical and financial progress of the Project at the end of the year under review was 100 percent and 84 percent respectively.

### 3.2 Contract Administration

No.	Audit Issue	Responses of the management	Auditor's Recommendations
(a)	There were balance works such as providing house connection transfers, decommissioning old pipe lines, road reinstatement works, as built drawings and asset capitalization works to be completed before loan winding up date of 29 February 2024. However, the project is being continued without obtaining the cabinet approval for final extension date.	The delays are mainly due to CMC approval delays for road excavation in the ICB-04 area as there was a parallel CMC project implemented to lay the sewerage infrastructure and CMC didn't allow NWSDB to disturb all the roads in Colombo City concurrently.	Action should be taken to complete the project as planned without further delay and having losses to the country.

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| <p>(b) 19 DMA meters amounting to USD 230,035 equaling to Rs.Mn.69 had been installed under the ICB contract 03 in 19 District metering areas in order to collect Water flow measurement data. However, 17 meters out of above 19 had remained as inactive by 31 December 2023. Those meters were purchased in the years 2016 and 2017 with 3-year manufacturing warranty and those were installed after laps of two years from the date of purchase. Further it was observed that the warranty period of 16 meters had been expired before their installation</p>                                | <p>The procurement delay encountered in ICB-03 &amp;04 and which were awarded in 2017. Hence the installation of the DMA meters in ICB-03 &amp;04 got delayed. We have arranged several discussions with the Contractor (i.e. Supplier) to enhance the warranty period.</p> | <p>Management should be liable to failures of this procurement and need to take immediate action to rectify the existing issues and get the expected results.</p> |
| <p>(c) 23 DMA meters valued USD 246,337.80 (Current value approximately Rs.Mn.73.9) had been installed under the ICB contract 04 in 23 District metering area (DMAs) of Southern part of Colombo city to collect water flow measurement data with the purpose of manage non-revenue water. However, it was observed in the audit on 02 May 2024 that all those meters were been remained as defective and some meters were being inactive since 2021. Due to this issue it was seriously affected to execute the NRW management activities in effectively in all the district metering areas.</p> | <p>The flow meters are not sending data to the NRW Control room mainly due to battery exceeded the life time. Hence, we are in the process of replacing the batteries through the ADB recommended Local agent and it is under way.</p>                                      | <p>Action should be taken to correct the existing issues and achieve the expected objective.</p>  |
| <p>(d) The NRW management software, Warranty certificates and letters taken from authorized local agents for Mechanical and electrical equipment such as all types of bulk water meters, servers, UPS System, AC Unites, Monitors Display panels etc. had not been handed over to the O&amp;M section of the Board even by end of the year under review.</p>  | <p>O&amp;M has occupied the NRW Control room and using the facilities established through the Project since 2022. All the required documents already handed over to O&amp;M.</p>  | <p>Action should be taken to handover the balance electrical equipment without further delay.</p>   |
| <p>(e) A stock of 6548 Ningbo type domestic water meters which were coded as “NWS&amp;DB” and valued at Rs.51.36 million (Approx.) had been imported by ICB 3 main contractor for project activities were been miss placed while they were in the custody of contractor in</p>  | <p>As per the Contract, maintaining the Storage Facility is the contractor’s responsibility. When the issue was identified legal action against the material loss was initiated by Project Manager as well as NWSDB Internal Audit Section. After number of</p>             | <p>Strong internal controls over stocks should be maintain to avoid fraudulent Activities in future and losses occurred due to this fraud should be</p>           |

2023. Meanwhile, It was found that 913 meters out of above were kept for sale in a private company.

Even though it has been passed more than one year after above losses and frauds were occurred, project management had not taken action to recover those losses and to take disciplinary action against to the responsible officers.

discussions Contractor agreed to supply the lost water meters and it was already informed to the Contractor that any material loss occurs by the Contractor, will be deducted from their Final Bill as per the Condition of Contract

recovered from responsible persons.

### 3.3 Extraneous Activities/Payments made out of the Project Objectives

No	Audit Issue	Responses of the Management	Auditor's Recommendation
(a)	Rs. 870 million had been to ICB 3 contractor for opening a letter of credit for 122,500 domestic water meters and 100,000 Nos Gunmetal ferrules required for the Water Board violating the objects of the project. Apart from this, another 15 percent or Rs. 254 million had been paid as contractors' profit and overheads to the above supplies without proper approval.	During the USD crisis existed in 2022, NWSDB find difficulty to open LC to the awarded Contracts to procure water meters, chemicals etc. To manage this crisis, with NWSDB board approval, General Manager (NWSDB) instructed to carry out the procurement through ICB-03 & ICB-04.	Project funds should be used to achieve the expected objectives of the project and the money which has already used for other purposes should be reimbursed.
(b)	Water Supply Board had paid Rs.9.2 million to the ADB through Main contractor of ICB 3 of this project in order to pay back the unutilized loan advance of USD 28,543.22 of ADB project 01. However the contractor included that payment to the interim payment certificate of Project 02 and gets reimbursed with the 15 percent profit and overhead margin amounting to Rs. 1.6 million. Further it was observed that the Water Supply Board had retained Rs.1.45 million of foreign exchange gain through this transaction.	When ADB requested the refund of 2948-SRI, USD 28,543.22 we have requested Addl.GM (Finance) to arrange the GoSL fund of the Project or Board funds. However, at that fund was not available in both GoSL and Board funds. Hence, with approval of General Manager (NWSDB), the repayment was arranged through ICB-03 Contractor. And as per the Contract, all the works executed under Provisional Sum item it is required to pay the Contractor's Overhead & Profit of 15%.	Project funds should be used to achieve the expected objectives of the project and the money which has already been used for other purposes should be reimbursed.

### 3.3 Controversial activities

Audit Issue	Responses of the management	Auditor's Recommendations
<p>According to the terms and conditions of the agreement signed between the NWSDB and the DMA meter supplier when purchasing DMA meters to the project, the manufacturing country of Electromagnetic flow meters should be United Kingdom, However it was observed that the project had purchased DMA meters, made in China.</p> <ul style="list-style-type: none"> <li>- As per the above agreement, selected supplier had been mentioned as manufacturer nominated authorized local agent for DMA meters. However, evidence had not been received to the audit to prove that agency and the project was failed to submit a valid agreement between both parties.</li> <li>- As per the manufacture warranty confirmation stipulated in contract agreement, DMA meters' Manufacturer had agreed to provide a 5-year warranty period, but the project has agreed to take only 3-year warranty period from the date of delivery.</li> </ul>	<p>As per the tender submission, Supplier has confirmed that the flow meters are manufactured in United Kingdom, calibrated and shipped from China.</p> <p>The service of the local agent is required only at the end of the Contract, after the supply and installation of meters. Accordingly, when we looked for the service of the local agent, we were unable to find the company proposed at the bidding stage and again the supplier the proposed the new local agent with the approval of manufacturer's regional office. Accordingly, the service agreement by the new local agent has been prepared and submitted to O&amp;M for their review.</p> <p>As per the manufacturer's warranty letter it is stated that Warranty can be extended to five years provided the confirmation of order received within six months from the manufacturer's letter dated 25 December 2014. However, the Contract is awarded 03<sup>rd</sup> September 2015 which is after 9 months from manufacturer's letter for warranty. Therefore, the warranty remains as three years.</p>	<p>Project management should strictly follow the contract conditions and investigation should be done to get disclosed the real situation of this procurement.</p>

### 3.4 Idle/ Unutilized/ Underutilized Resources

No	Audit Issue	Responses of the management	Auditor's Recommendations
(a)	<p>Thelawala Training Center (CEWAS) was built under capacity building proposal of the project at a cost of Rs. 1,571 million and it was opened on December 2022 and according to the project proposal it can use for commercial purpose as well. During the year under review cost of Rs.41.63 million had been incurred as operational expenses and total income was</p>	<p>The GCWWMIP Project had developed the Thelewala Training Center and handed over to NWSDB on December 2022 to operate. There is a different unit setup by NWSDB to look after the business operation of Training Center (CEWAS). The</p>	<p>Action should be taken to utilize the total assets to get value for money which incurred for these constructions.</p>



Rs.27.28 million. Accordingly, the amount of Rs.14.35 million loss was recorded. Further it was observed that the Rs.7.22 million valued fully furnished office premise (337.5sqm) ,2 No of computer labs ,a library premise with furniture and a gymnasium with the value of Rs.4.1 million exercise equipment being idled without any use since the date of opening.

income and expenditure amounts stated in this particular query to be checked with the above referred unit established for Training Center operation.

(b) Project – 02 had been started with the objective of delivering better water supply services in an effective manner by reducing non-revenue water percentage below 18 percent. However, only 25 DMAs out of 42 DMAs had been fully completed and handed over to the NWSDB even after a lapse of 111 months from the date of commencement of the Project. However, the loan repayments have been started and Rs.4,293.25 million including commitment and interest charges amounting to Rs. 95.11 million and Rs.1,852.47 million respectively had been paid by the government as at 31 December 2023.

Several uncontrollable reasons such as non-availability of as-built details of the existing water supply scheme, unforeseeable site conditions, work time restricted largely to night time, approval delays, bomb blast in April 2019 and pandemic situation disruptions for the project extension

Action should be taken to complete the project avoiding further financial burden to the country.

### 3.6 Project administration

No	Audit Issue	Responses of the management	Auditor's Recommendations
(a)	An action had not been taken by the Project to recover the security deposit amounting to Rs.164.46 million in respect of completed and handed over roads to the Colombo Municipal Council under the ICB-4 contract.	Action has been taken to obtain the funds.	Action should be taken to recover the security deposit without further delay
(b)	Rs.14,599 Million valued fixed assets had not been handed over to the National Water Supply and Drainage Board even it had passed 2 years after the revised completion date of the project.	Agreed. It will be completed once we complete the final bills of the Contracts which is targeted by end of 2024.	Immediate action should be taken to handover the assets formally to the NWSDB.
(c)	Total allocation made for the Project under the annual Budget Estimate and with F.R. 66 for the year under review was Rs. 312 million and expenditure incurred during the year was Rs.478 million. Thus, an amount of Rs. 166 million had been spent beyond the allocation.	Agreed with F.R 66 Allocation and the expenditure incurred according to our record is Rs.372 million	Annual budget should be used as an effective financial management tool other than a statement.