

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2023

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 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. 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 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 3 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 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

No	Accounting Deficiencies / Audit Issue	Amount Rs. Million	Responses of the Management	Auditor's Recommendations
	The balance of the ADB loan No. 3349-SRI amounting to Rs.500 million which was given to the Colombo Municipal Council to complete the remaining works of the Project with the approval of ADB and ERD, had been accounted together with the existing loan of the project instead of being mentioned as a separate financing liability in the statement of financial position.	500	We are not in a position to mention 3349-SRI as a separate loan since it was not granted to our project, it's a fund arrangement of USD 3.5 Million from CMC to complete balance works of the Project. Hence the expenses which made out of under 3349-SRI loan has been accounted under Tranche 3 without mentioning the loan code.	Action should be taken to state the fund arrangement as a separate project financing source.
(b)	A sum of Rs.698 million had been recorded as payable to the contractor of ICB 01 Contract as the final bill without get ensured the liability through work done certificate, payment approval and related other supporting documents.	698	The amount of RS 698 million was tentatively assumed as the payable to ICB-01 Contractor at 31.12.2023, in order to finish the asset capitalization and account finalization that amount has been taken as accruals. When the finalized amount confirmed later in the beginning of year 2024 that amount was reversed and accounted the actual value accordingly.	All accounting entries should be verified with supporting documents

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 Recommendations
2.2.1	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	Necessary action has been taken, capturing of fixed assets is under way	Fixed asset register should be maintained as per the Financial Regulations
2.2.2	Financial Regulation	Although the annual board of survey should be	Agreed. Copy of the Board of Survey Report had been	Should be comply with

No.128(1) e, completed before submitted recently. Rules and Regulations.
 No.507, No.756 submission the annual financial statements, it had not been done even at the date of audit 10 April 2024.

3 Physical and financial performance

3.1 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\$ 29.84 million equivalent to Rs 7,825.43 million (According to the existing currency rate) which represent 78.52 percent had only been utilized as at 31 December 2023 even after a lapse of 7 years from the commencement of the Project.

3.2 Contract Administration

No.	Audi Issue	Responses of the management	Auditor's Recommendations
(a)	The project had paid sum of USD 385,759.65 Plus Rs.345 million and USD 1,637,367.61 Plus Rs. 89.7 million to the main contractors of ICB 01 and ICB 02 contracts respectively and also Rs. 436.48 million to the ICB 03 contractor as prolongation Claims through variation orders using ADB funds based on the time extensions without taking consultant's recommendation.	When evaluate the prolongation claim of ICB - 3 Contract, Project Consultants service period has expired and Consultancy Contract was not extended beyond October 2022. Hence the ICB-03 claim was evaluated by PMU/PIU staff of NWSDB.	Project variation committee should approve such payments within the given authority limit, If there is a special requirement; need to have a prior approval from relevant authorities before release funds.
(b)	It was observed that the main contractor of ICB 3 contract had requested sum of USD 372,488 and Rs. 505.99 million as prolongation Claims, However Project had paid sum of USD 1,023,338 and Rs. 98.21 million equivalent to Rs. 436.48 million through a variation order. Further the project had paid	When the project evaluates the Prolongation Claim for the ICB -3 Contract, it was considered up to EOT - 7. Subsequently. Contractor request amount is CYN 50,822,695.83 plus USD 131,635.49 plus LKR 621,468,876.68. However, as per the contract payment can be certified USD & LKR only. Therefore, it was recommended USD 1,023,338 plus	Internal control procedure should be followed.

USD 650,850 more than contractor requested USD amount in order to settle the requested Rupee amount, without having proper approval and considering the prevailing foreign currency crisis in the country. In addition, The Additional General Manager of the Water Supply Board had recommended the above Rs. 436 million valued variation order and also signed to the approval on behalf of General Manager violating the internal control procedures.

LKR 98,211,794.09. Further, during the approval, period Additional General Manager (WSP) do the covering up duty on behalf of General Manager.

- (c) According to the EOT documents, the contractors has agreed that they didn't have any right to claim additional cost other than contract value however, the project had taken action to pay for contractor's variation claims amounting to Rs. 532.91 million and USD 3,046,465.26 violating the above condition.

As per FIDIC, General Condition of Contract clause 8.4 - The Contractor is entitled subject to Sub-Clause 20.1 [Contractor's Claims] to an extension of the Time for Completion, if and to the extent that completion for the purposes of Sub-Clause 10.1 [Taking-Over of the Works and Sections] is or will be delayed by any of the following causes: a Variation, Unforeseeable shortages in the availability of personnel or Goods caused by epidemic or governmental actions & etc.

Management should take necessary action to the poor performance/inefficiencies of contractors and to avoid unnecessary expenses.

When EOT was granted, evaluation was done based on above criteria. Accordingly, Employer agreed the time and cost for some EOTs. and time only granted in some cases with the Contractor's agreement.

- (d) Although the physical works of ICB 01 and ICB 02 contracts had been completed on 15 March 2022 and 21 May 2022 respectively, final payments had not been done even at the audited date of May 2024 by the project.

Contract Sums of ICB-01 and ICB-02 were to be enhanced and the same required the Cabinet approval. Accordingly Project has obtained the Cabinet approvals to enhance the Contract Sum in February 2024. Cabinet Approval process took more than 12 Months. Further there were shortcomings in the Contractors' Final Bills submitted caused the delay. Now,

Immediate action should be taken to get the relevant approvals for the exceeded Contract value and any extra payment of ICB 03 and ICB 04 contracts as well.

Further it was observed that

although lapse of 2 years from the completion of the above two contracts, final material reconciliation had not been done according to the FIDIC conditions clause 7.6 before settling the final bills.

both ICB-01 & ICB-02 Final Bills are finalized.

The Material Reconciliation also relates with the finalization of Final Bill. Now that too has been completed for both ICB-01 and ICB-02.

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

Audit Issue	Responses of the management	Auditor's Recommendations
As a result of low performance of the project as mentioned in the Paragraph 3.1 in this report, Significant delays were shown in disbursements of funds and due to that commitment charges of Rs. 183 million had to be paid to the government as at 31 December 2023.	As of 31 December 2023, the cumulative commitment charges of ADB for 3348-SRI loan are LKR 183 Mn from loan effective August 2016. This loan, 3348-SRI was obtained to fulfill the additional fund requirements of 2947-SRI and 3029-SRI. And these loans have to be finished to use 3348-SRI loan. However, due to various reasons 2947-SRI and 3029-SRI disbursement didn't take place as expected and hence utilization of 3348-SRI got delayed caused the payment of commitment charges to ADB.	Action should be taken to complete the whole project without further delay avoids uneconomic expenses.

3.4 System and Controls

Audit Issue	Responses of the Management	Auditor's Recommendations
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.	Internal Audit Division had carried out audit in the Project, to time to time during its implementation period.	Action should be taken to carry out the internal audit continuously.