

Greater Colombo Water and Wastewater Management Improvement Investment Programme -Project 01 - 2023

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 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. 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 Programme Project – 01

According to the Project and Loan Agreements of the Programme Project - 01, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply and Estate Infrastructure Developments is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Programme Project - 01. The objectives of the Programme Project – 01 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 - 01 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 per cent 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 per cent is expected to be contributed by the Government of Sri Lanka. The Programme Project - 01 commenced its activities on 25 September 2013 and scheduled to be completed by 31 December 2016. Subsequently, the period of the Programme Project - 01 had been extended three times up to 30 June 2021.

1.3 Qualified Opinion

In my opinion, except for the effect 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 01 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 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 Accounting Deficiencies

No	Accounting Deficiencies /Audit Issue	Amount Rs. Million	Responses of the management	Auditor's Recommendation
(a)	Even though physical progress of the project was substantially completed on 23 May 2022, Borrowing cost amounting to Rs.231.73 million of debt had been capitalized to the capital work in progress account instead of charge to the Profit and Loss account of NWSDB. Accordingly, the board had not taken action to cease the capitalization of borrowing cost when it came to the intended use in line with Sri Lanka Accounting Standard No. 23 (23).	231.73	Usually, the Loan Interest is charged to each Tranche of the project. Since the Tranche 01 has been already closed, the project has informed not to charge the interest in year 2023 by a letter dated 24/04/2024.	Action should be taken to rectify the error and to follow the correct accounting procedures in future.
(b)	Rs.133 million valued vehicles had been purchased by the project in the years 2014, 2016 and 2017 and handed over to the board. However, the value of that vehicles had been taken to the ledger as Rs. 112 million accordingly, the account balance of vehicles handed over to NWSDB was understated by Rs.21 million and no details to identify the vehicles which were unrecorded.	21.30	Rs. 133,217,966 worth of Vehicles has been obtained to the project and Rs 111,909,396 worth of vehicles has been transferred to the head office. The Balance worth of 21.308 million vehicles will be transferred in this year 2024.	Action should be taken to rectify the error.
(c)	14 Crew Cabs and 07 Double Cabs bought under the project have been transferred to the Board. However as per the Board's asset registers only 16 vehicles had been received. Hence, project management failed to provide evidence to the audit about 5 vehicles valued at Rs.28 million.	28.46	Balance Vehicles (5 Nos) details will be provided immediately.	Immediate action should be taken to provide the sufficient information related to unrecorded five vehicles.
(d)	Amount of Rs. 9 million valued vehicles which were transferred to the NWSDB had been brought to the material transferred account instead of recorded as vehicles.	8.98	It will be transferred from Sabaragamuwa RSC to NWSDB A/Necessary Correction will be done immediately.	Corrective measures should be taken to rectify the error.

- (e) A cumulative unclaimed VAT 9.2 receivable amount of Rs.9 million had been written off against fund received from NWSDB account without any documentary evidence such as journal vouchers, Vat Invoices etc. Accordingly, Both capital work in progress account and fund received from NWSDB account were understated by Rs.9 million.
- Agree. We will correct the JV to report as VAT Expenses under recurrent cost
- Action should be taken to rectify the error.

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) and Treasury Circular No. 842 dated 19 December 1978.	Fixed asset register had not being maintained by the project Office.	Fixed Asset Register is Developing and Currently Maintaining	Asset register should be maintained as instructions given by the circular
(b)	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 action.	Action should be taken to conduct internal audits regularly.

3. Physical performance

3.1 Physical progress

As per the progress report, the Project – 01 which was executed with the objective of reducing the non-revenue water in Colombo city from 49 percent to below 18 percent, had been involved to pipe laying works of **469,200** meters and provide connection transfers to **62,932** 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. Even though the physical progress of the project was 100 percent as per the progress reports as at 31 December 2023, it was observed that the expected objective of the project had not been achieved as mentioned in the 4.2 paragraph of this report.

3.2 Contract Administration

No	Accounting Deficiencies /Audit Issue	Responses of the management	Auditor's Recommendation
(a)	To achieve the target of reducing the percentage of non-revenue water from 49 percent to below 18 in Northern and eastern Part of the Colombo City and 36 DMA meters were installed with the value of USD 383,710.2 approximately Rs. 115 million to obtain the flow measurements data to execute the NRW management and to see the progress of the target. However, 31 DMA meters out of 36 above had been remained as inactive due to discharge batteries and defective data loggers. Further it was observed that some meters were been inactive since 2022.	The Project is in the process of obtaining the after sales service from the manufacturer of flow meters. The required batteries have been imported and being used in the replacement. Further NWSDB is signing maintenance agreement with the local agent for periodic maintenance of the flow measurement system installed for Colombo City.	Management should be liable to failures of this component and need to take immediate action to rectify the existing issues and get the expected results.
(b)	Those DMA meters had been purchased in the years 2016 and 2017 with 3-year manufacturing warranty and installed them after laps of two years from the date of purchase. Further it was observed that the warranty period of 31 out of 36 meters had been expired even at the time of installation. However, the project management had still not taken actions to rectify those defective meters and enter to an agreement with a manufacture authorized local agent to keep maintenance of those meters and even extend the supplier's warranty period as installation process of the flow meters was seriously delayed.	The flow meters were purchased from a single brand to ensure the compatibility. And as per the original project plan it was planned to be completed by 2018. However, due to various site difficulties encountered by the main Contractor during pipe laying, DMA formulation took more time than the anticipated. Hence the delay happened in the installation.	Project management should responsible to complete the given task within scheduled time frame.

3.3 Matters pointed out in previous Audit Reports which remained unresolved

No.	Accounting Deficiencies /Audit Issue	Responses of the management	Auditor's Recommendation
(a)	Building of water meter testing work shop in Rathmalana at main stores amounting to Rs. 11 million had been awarded to a private contractor with an advance payment of Rs.2 million in the year 2014. Even though after a lapse of 10 years from the date of awarding the contract by April 2024,	Legal action has been initiated by NWSDB against the relevant party.	Action should be taken to recover the financial losses from the contractor or responsible officials.

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.

3.4 System and Controls

No.	Accounting Deficiencies /Audit Issue	Responses of the management	Auditor's Recommendation
(a)	Even though, the project had been physically completed, two years before and final bills of the Contracts had been paid to the contractors. However asset capitalization works in relating to Rs.16, 452 million valued fixed assets had not been completed and formally handed over to the National Water Supply and Drainage Board.	Since Pkg 1 & 2 final bills are completed, This total amount will be Added to the Capitalization through Asset Forms	Immediate action should be taken to accelerate the asset capitalization process and windup the project without further delay.
(b)	Even though it had passed two years after handed over all roads where pipelines were laid to the Colombo Municipal Council, the action had not been taken to recover Rs.109 million security deposits amounting to Rs. 109 million regarding constructions carried out by the project.	Already requested the CMC to release the security deposits for the handed over roads	Immediate Action should be taken to recover the security deposit without further delay