

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme Project 03 - 2024**

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The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 for the year ended 31 December 2024 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 Urban Development, Construction and Housing 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 section 2.1 of this Report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024 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**

	<b>Accounting Deficiencies / Audit Issue</b>	<b>Amount Rs. Million</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	As per the paragraph 39(a) of Sri Lanka Accounting Standard 21, parity adjustments amounting to Rs. 1,141 million relating to the foreign loan of the project had not been accounted in the financial statements of the year under review.	1,141	No Parity adjustments have been made.	Adhere to LKAS.

### **2.2 Non-Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non-Compliance/ Audit Issue</b>	<b>Responses of the management</b>	<b>Auditor's Recommendations</b>
Financial regulation No 502(2).	The project had not been maintained fixed assets registers for every class of assets separately and all the assets acquired by the project were recorded in one register without classifying clearly.	Project maintained an inventory record until all the assets are being transferred to the NWSDB from time to time.	Financial Regulations should be followed.

## **3 Physical and financial performance**

### **3.1 Physical progress of the activities of the project**

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 the US\$38 million, only US\$34

million (equivalent to Rs 9,359.02 million), representing 89 percent of the finance agreed upon by the ADB, had been utilized by the end of the project's extended period, despite a four-year extension.

### 3.2 Contract Administration

Audi Issue	Responses of the management	Auditor's Recommendations
(a) A prolongation claim totaling to Rs. 436.48 million was paid to the ICB 3 Main Contractor. Contrary to contractual conditions, the claim was submitted with considerable delay and was evaluated by the Variation Order Committee after the consultancy agreement had already expired. This claim was paid without formal approval from the Board of Directors, the Secretary of the Line Ministry, and the Asian Development Bank, which constitutes a violation of established procurement procedures.	The Variation Order Committee processed the approval, which was subsequently recommended by the DGM (DC) and Addl.GM (WSP) and ultimately approved by the General Manager. This procedure was in accordance with the delegated authority for EOTs and additional payments.	Formal investigation should be followed for the violation.
(b) The Project Director had paid Rs. 1,405.04 million and Rs. 1,355.13 million to contractors of the North and East parts of Colombo City respectively, exceeding the original contract sums without proper approval. Action to obtain Cabinet approval for the total increased contract sum of Rs. 6,375.62 million was initiated only in December 2022, a considerable delay occurring 07 to 09 months after the respective contract completion dates.	A payment was recommended by the Project Director and approved by the General Manager to utilize a 15% additional of the contract sum as per the ADB practice.	Comply with the authority limits.
(c) Final bill value of Rs. 709.05 Mn of ICB 01 contract and the last two IPC Value of Rs. 2,906.39 Mn of ICB 02 had been paid by the project without taking consultant's recommendation or any third-party review.	Most of the Variations (EWO/ SSR) were recommended by the Consultant prior to the Contract Sum enhancement approval. (This enhancement was reviewed by the TEC and SCAPC members, which includes third party (outside) members.	An independent party should be verified the correctness.
(d) A landscaping contract at Elie House has been awarded for Rs. 58.84 million, which is 13 percent higher than the Engineer's Estimate to the same contractor, who was	Lowest quoted bidder was selected to carry out the work within the ICB contract provision.	Independent investigation should be conducted.

also engaged for the landscaping works at Maligakanda.

Further it was observed that Rs. 100 million allocated for yard piping works of System Rehabilitation for NRW Reduction in the North Part of Colombo City was improperly used for landscaping at Elie House, a totally different scope of work with no project provision. This was executed without formal approval, in violation of paragraphs 2.03(b) and 2.14 of the Project Agreement.

The project improperly used the Shopping Method instead of NCB, obtaining only three quotations from informally selected companies, and the Technical Evaluation Committee did not consider this issue. However, the final contract value of Rs. 66.88 million was approved by a Project Variation Committee without getting an independent evaluation.

To get the cost saving, it was decided to carry out the Landscaping work at Elie lowest bidder was selected for the contract activity following formal procedure. Most of the variations were recommended by the project consultant.

- (e) The Contract for the Landscaping work at the Maligakanda Reservoir premises had been awarded at a cost of Rs. 65.27 million, which is 11.52 percent higher than the Engineer's Estimate without prior approval. Furthermore, Rs. 10 million allocated for yard piping works under the NRW Reduction in eastern part of Colombo city contract was used for this purpose.

The value of the above contract had been increased by Rs. 38,493,184 which is 59 percent of initial contract price.

The Project Director has approved that without having formal approval.

It was decided to carry out the land scaping activity within the contract provision.

Both landscaping Contracts quotations were called by different Contractors. Subsequently, quotations were evaluated by different TECs. Accordingly, lowest bidder was selected for the contract activity.

Independent investigation should be conducted.

### 3.3 System and Controls

	<b>Audit Issue</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	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.	Annually, the Internal Audit express their views and proposal to improve the project activities.	Internal audit should be functioned as per the circular.
(b)	As of 31 st December 2024, assets of the project valued at Rs.11,792 million equivalent to 92 percent had not been capitalized and handed over to the NWSDB. Furthermore, asset forms for Rs.429 million had been taken over by the DGM(Western Central) who had also handed over the same assets as project director, while other handover forms totaling Rs.131 million lacked required signatures and seals from the Chief Accountant or Cost Accountant.	Though the PD and DPD signs only the Summery sheet of the Asset Forms, these have been checked and certified by all parties concerned.	Need to establish strong internal controls.