

Greater Colombo Wastewater Management Project - 2019

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2019 was carried out under my direction in the pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 2.09 (a) of Article II of the Project Agreement No.2557 and 2558 SRI dated 18 December 2009 entered into between the National Water Supply and Drainage Board and the Asian Development Bank . My comments and observation which consider should be report to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry of Provincial Councils and Local Government is the Executing Agency of the Project. The Colombo Municipal Council is responsible for the implementation of works within Municipal Council area and the National Water Supply and Drainage Board is responsible for the implementation of works within Kolonnawa Urban Council and Dehiwala / Mt. Lavinia Municipal Council areas. My observations on the activities carried out by the National Water Supply and Drainage Board are contained in this report. The objectives of the Project are to improve the urban environment and public health services for the urban and sub urban residents in the Greater Colombo area by providing proper wastewater management service. The expected outcome of the Project is to improve the wastewater management services to 645,000 residents living in the respective areas. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 116.60 million equivalent to Rs.13,410 million. A sum of US\$ 12.60 million equivalent to Rs. 1,731.70 million of the total estimated cost of the Project had been allocated to the activities to be carried out by the National Water Supply and Drainage Board. Out of that, US\$ 9.40 million equivalent Rs. 1,367.35 million was agreed to be financed by Asian Development Bank and the balance sum of US\$ 3.20 million equivalent to Rs. 364.35 million was agreed to be financed by the Government of Sri Lanka. The Project commenced its activities on 18 December 2009 and scheduled to be completed by 31 December 2014. Subsequently, period of the Project had been extended up to 30 March 2017. However, the activities of the Project had been continued up to 31 December 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 of this report, the accompanying financial statements give a true and fair view of the financial position of Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for 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 this 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 and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 Project.

- 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 -----	Amount ----- Rs.	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Value added Tax paid up to 31 December 2019 had been set off against the contribution received from the Government of Sri Lanka.	72,190,356	Understatement of contribution received from the Government.	It is a policy of NWSDB to set off the Value Added Tax against the proceed of Government contribution.	Total Government contribution should be separately shown in the financial statements.
(b)	The balance remained in the Special Dollar Account as at 31 December 2019 had not been brought to the financial statement.	21,432,660	Understatement of the cash and cash equivalents.	Get action to return the balance of Dollar Account to ADB.	The balance remained in the Special Dollar Account should be shown in the financial statements.
(c)	As per the financial statement, the value of direct payment during the year under review was Rs.95.87. However, as per report submitted by the Department of External Resources it was shown as Rs. 97.90 million million.	2,026,998	Understatement of foreign disbursement in the financial statements.	Reconciliation prepares for the difference.	Balances should be reconciled timely.
	Audit evidence for the expenditure Rs. 1.52 million incurred on arbitration during the year under review had not been submitted for audit. Further, the evidence for handing over of non current assets and current assets valued Rs. 6.77	25,147,955	Limitation of scope in audit.	Not responded	Need to submit the supporting documents to verify the figures shown in the financial statements

million and Rs. 16.84 million respectively had not been submitted to audit eventhough Project had been completed as at 31 December 2017.

3. Financial Performance

3.1 Financial Progress

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Out of the loan allocation of US\$ 9.40 million, a sum of US\$ 7.70 million had only been utilized as at 31 December 2019, after lapse of 10 years from the commencement of the activities of the Project. However, balance amount of US\$ 1.70 million had not been refund to Asian Development Bank even up to 31 June 2020, eventhough the Project had been completed on 31 December 2017.	Unsettled unutilized balance.	Not responded	Loan balance should be refund to Asian Development Bank without delay.

3.2 System and Controls

Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
The Project completion report had not been prepared, even though the activities of the Project had been closed as at 31 December 2017.	The outcome of the activities of the Project could not be measured.	Not responded	The Project Completion Report need to be prepared at the end of the period of the Project

The transactions of the Project during the year under review was not subjected to internal audit as per the Financial Regulation 133 and the Management Audit Circular No. 02/2016 of 10 June 2016.

Poor control over financial and operational activities of the project may adversely affect the project performance.

Not responded

Action should be taken to implement an internal Audit.