

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2019

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 for the year ended 31 December 2019 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 dated 11 August 2016 entered 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 Agreements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 03, then Ministry of City Planning and Water Supply, presently the Ministry of Urban Development, Water Supply and Housing Facilities is the Executing Agency of the Programme – Project 03 and the National Water Supply and Drainage Board is the Implementing Agency of the Programme - Project 03. The objective of the Programme- Project 03 is to improve system efficiency and financial sustainability of water supply and wastewater services in the Greater Colombo area. The activities of the Project are implemented under 03 components namely, Project development assistance consultancy contract, additional finance for Project -01 and additional finance for Project -02. As per the Loan Agreements, the estimated total cost of the Programme -Project 03 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 03, 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 03 implemented by the National Water Supply and Drainage Board. The Programme- Project 03 commenced its activities on 03 November 2016 and scheduled to be completed by 30 June 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Programme - Project 03 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 Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditors 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.

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 Deficiency

	Amount Rs.	Impact	Response of the Management	Auditor's Recommendation
The commitment charges and interest aggregating to US\$ 973,339.44 equivalents to Rs. 165.71 million was recovered by the Lending Agency in respect of Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 and the Greater Colombo Water and Waste Water Management Improvement Investment Programme -Part-11 implemented by the Colombo Municipal Council had not been segregated and brought to the financial statements.	165.71 million	Understatement of loan balance by interest and commitment charges respectively.	<p>The statement of financial position as at 31 December 2019 of Project included interest paid by NWSDB to the General Treasury, under Work in progress Account and excluded Loan interest charged by ADB. Project office followed this procedure as per the instruction of Additional GM (Finance) (already provided with the response for draft audit report) and for the purpose of Project Work in progress account in NWSDB Accounts.</p> <p>However, ADB interest was disclosed in the Project Financial Statements Notes to the Accounts under note 11. Further according to the subsidiary loan agreement signed by the NWSDB with the ERD, commitment charges and interest of the ADB Loans are paid by the Treasury. NWSDB is liable to pay the interests to the treasury on the subsidiary loan agreement. On this scenario, NWSDB has not recorded any interests or commitment charges on original loan agreement and treasury</p>	The respective cost recovered directly by the Lending Agency required to be brought to the financial statements as enable to shown amount of loan utilized at the end of the year.

records commitment charges and interest on their book of accounts as expenditure of National Accounts.

3 Physical Performance

3.1 Physical Progress of the activities of the Project

The significant progress had not been shown even after lapse of 38 months from the commencement date of the Project, due to additional finance for the Program Project -01 and -02 under the Project had not been utilized even up to 31 December 2019. The following observations are made.

Component /Sub Component	Physical progress as at 31 December 2019				Audit Issue	Impact	Response of the Management	Auditor's Recommendation
	No. of Individual contracts	No. of awarded contracts	No. of contracts expected to be awarded	No. of completed contracts				
Project development assistance					Delay in completion of the Project	Overrun the Project cost and possibility to extend the Project period.	Other consultancy contract and goods and works contracts are to be awarded within this year as per the requirement of future project.	Action should be taken to awarding of individual contracts as planned.
(i) consultancy contract	15	08	07	01				
(ii) Goods and works contracts	28	14	14	13				
Additional finance for project-01	-	-	-	-				

Additional finance - - - -
for project-02

3.2 Underutilized Resources

Audit Issue	Impact	Responses of the Management	Auditor's Recommendations
<p>(a) The main objective of the Programme – Project- 03 is to provide financing gap for the rehabilitation and expansion of the water supply system and reduction in non-revenue water (for both tranche 1 and tranche 2). However, the allocation of US\$ 35 million equivalent to Rs.4,550 million made under the additional financing arrangement under the loan had not been utilized by the Programme- Project 3 even up to 31 December 2019, due to the low financial progress of 84.12 per cent and 52.11 per cent of above Programme -Project 01 and 02 as at 31 December 2019.</p>	<p>Government had to be paid the commitment charges over the estimated amount of the Loan Agreement.</p>	<p>We have identified a significant amount of saving under the Tranche - 01 & 02, due to depreciation of Sri Lanka rupee against US dollars. As a result, the Tranche- 01 loan amount could not disbursement before 2019. Now, ADB commitment percentage was increased up to 100% to utilize the saving and disburse the loan amounts without further extension.</p>	<p>Action should be taken to utilize the proceeds of the loan during the Project period.</p>

- (b) Out of the total proceeds of the loan, a sum of US\$ 3 million equivalent to Rs.390 million had been allocated for Project Development assistance expenses. However, US\$ 0.48 million equivalent to Rs. 80.63 million represent 16 per cent had only been utilized as at 31 December 2019 even after a lapse of 38 months out of the 44 months of the Project period.
- Government had to be paid the commitment charges over the estimated amount of the Loan Agreement.
- PDA** loan amount had been provided to identify the new projects and the amount is utilized as per the actual requirement.
- Action should be taken to utilize the loan during the Project period.

3.3 Issues related to the Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Water foot print expert had been recruited without considering specific experience of water, sanitation and water foot print in terms of the scheme of recruitment.	Relevant experience had not been considered when evaluation of individual consultancy expert.	Total experience of footprint expert was considered as 11 years and 6 months. Accordingly, 90.85 marks provided to the selected consultant. (In addition to the 5 years, footprint expert had the 6.5 years' experience, for which 19.5 marks provided)	Schemes of Recruitment strictly followed when recruiting the consultants.

3.4 System and Controls

Audit Issues

Impacts

Responses of the Management

Auditor's Recommendations

<p>(a) Awarding of Contract, entering to the agreement and schedule date of completion, date of final report submission etc; had not been included in the procurement plan in terms of Section 4.2.1 of the Procurement Guidelines.</p>	<p>It is doubt whether the Project had strategy to complete the activities of the Project within specific Project period.</p>	<p>Procurement plan had been prepared as per the ADB format and guideline. We do not have the authority to change the ADB format and guideline.</p>	<p>Procurement plan should be prepared by including adequate information as per the Procurement Guidelines requirements and also, ADB format will not be change because of the such requirements are relevant to the procurement plan.</p>
<p>(b) Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.</p>	<p>Weaken internal control.</p>	<p>Please refer the IA response for the same query mentioned by the auditors on their draft audit report of P3.</p>	<p>Need to adopt with the requirements.</p>