

## **Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2020**

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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 2020 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 and loan 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 Water Supply 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. Subsequently, the period of the Programme Project -03 had been extended up to 24 October 2022

### **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 2020 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.

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 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

No	Accounting Deficiencies -----	Amount ----- Rs. (mn)	Response of the Management -----	Auditor's Recommendations -----
(a)	The interest and commitment charges aggregating to US\$ 1.42 million equivalent to Rs.249.67 million relating to the two projects namely programme project 03 implemented by the National Water Supply and Drainage Board and Colombo Municipal Council had been charged from the proceeds of this loan by Lending Agency. However, it had not been segregated and apportioned among the two implementing agencies and brought to the financial statements up to 31 December 2020. As a result, proceeds of the loan had been understated by similar amount.	249.67	CMC and NWSDB together with the ADB will develop a proper methodology for segregating the interest and commitment charges and account in the books of the accounts accordingly from the year 2021.	The respective cost recovered directly by the Lending Agency should be brought to the accounts by segregated among the project properly as enable to show the amount of loan utilized at the end of the year.
(b)	Exchange gain amounting to Rs 713,409 had been erroneously shown under the Work -in -progress instead of being shown separately under the source of finance in the statement of financial position.	0.71	We will adhere to the auditors' recommendation and adjust the accounts accordingly.	Exchange gain should be shown separately under the source of finance in the statement of financial position.
(c)	Subsidiary loan interest amounting to Rs.1.21 million paid to General Treasury by NWSDB for the period from May to November 2020 had not been brought to the the financial statements..	1.21	This entry has been updated in the NWSDB ledger after finalizing the project accounts. Entry has been subsequently accounted in the project books.	Action should be taken to account the relevant Project expenses prior to preparation of Project financial statements.

## 2.2 Non- Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-Compliances	Responses of the Management	Auditors Recommendations
(a)	According to the Section 2.3.2 of Management Services Circular No. 01/2019 dated 15 March 2019 the Project Director should always be recruited on full time basis in order to ensure effective Project management.	Project Director had been promoted as Additional General Manager and attached to covering up the duties of the consumer and asset management division of the Head Office with effect from 2 February 2021 even though the programme Project one, two and Programme Project three are implemented by the PMU. Therefore, National Water Supply & Drainage Board should take immediate action to appoint full time services basis of the Project Director to expedite the activities of the Project.	Not response	Action should be taken to appoint full time services basis of the Project Director.

## 3. Physical and Financial Performance

### 3.1 Physical Progress of the Activities of the Project

The activities of the Project comprised with 03 components namely, additional financing to fill the financing gap for Project 01 ,Project 02 and Project Development assistance. Further, US\$ 38 million equivalent to Rs.4,940 million had been allocated to carry out the activities of the Project .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 Project 02 and balance US\$ 3 million equivalent to Rs.390 million had been allocated for the Project Development assistance works. However, out of 03 million of Project development assistance expenses US\$ 0.48 million equivalent to Rs 80.67 million which represent 16 percent had only been utilized as at 31 December 2020 even after a lapse of 4 years and 4 months from the commencement date of the Project. Further, out of 35 million, no any funds had been utilized to fill financing gap for Project 01 and Project 02. Hence, overall physical and financial progress of the Project as at 31 December 2020 had not been prepared and submitted to the audit due to lowest progress shown of the Project. However, Physical progress under the component of Project development assistance works are as follows.

No	Component /Sub Component	Physical Progress as at 31 December 2020				Audit Issue	Response of the Management	Auditors Recommendation
		No. of Individual contracts	No. of awarded contracts	Ongoing contracts	Completed contracts			
(a)	Project development assistance							
	(i) consultancy contract	10	10	02		Project Development Assistance (PDA) loan amount had been provided to make readiness of potential project by completing feasibility studies, detailed design and bid document preparation. However, the loan amount is utilized as per the actual requirement of NWSDB's Planning and Designs (P&D) Section and NWSDB's Regional Support Centres (RSC)	Action should be taken to award and complete the Project development assistance works of the contract before loan closing date.	
	(ii)Goods and works Contracts	20	20	04	Delaying the project completion			
	(iii)Under document preparation	18	-	-				

### 3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Without obtaining prior permission from the security forces, the contract for the topographical survey in the proposed lower paliaru reservoir (RSC(N)DGM/ADB/Pali/Sur/ 2020/2) had been awarded on 02 September 2020 . Subsequently, the contractor had been stopped the survey works due to un-cleared land-mines in Paliaru area on the notice of Sri Lankan Army. As a result, survey works had been suspended until removing the land minds in this area.	Un-expected situation occurred after awarding the contract	Proper feasibility studies should be carried out before commencing the water supply Projects.

- (b) Selection of the contract for topographical survey works for transmission & distribution networks. (Hambegamuwa /survey/2019/204) evidence regarding the bidding requirements such as, registration of survey department, minimum financial capacity of 3 million, minimum experience of one similar works within past 3 years and submit the details of on-going similar work etc. had not been in the bidding files. Later contractor had been rejected to take-over the contract by informing as a private matter. Subsequently, contract had been awarded to the second lowest bidder. According to that project has lapsed one year and four months' time period to select the contractor due to poor selection of the contractor.
- The lowest bidder had successfully completed survey project of NWSDB. However, the bidder rejected to take-over the contract due to the personal reasons of the bidders.
- Bidding requirements should be strictly followed when evaluating the bidders.
- (c) Separate cadre provision for the Programme Project 03 had not been approved by the Department of Management services. However, awarding of individual contracts under the Project Development assistance and other Project works are carried out by staff of the other similar Projects 01 and 02 was observed. However, nominated staff out of that had not been fulltime released and assigned the duties of the Project works. Resulting of that, updated procurement plan, progress details such as, submission of consultancy reports and works on due dates, review of such reports, delay of contracts, feedback of the delay contracts, Projects commenced based on the preparatory works etc. had not been maintained timely by the Project and lack of monitoring and coordination between individual contractors and Regional Support centres was observed. According to that, expected objectives whether achieved under the Project development assistance of the Project was questionable to the audit.
- PDA loan amount had been provided to identify the new projects. Hence, we cannot define the required number of staff at the early stage. Procurement work is done by the Project office and implementation part is done by the relevant Regional Support Centres (RSC) and NWSDB's Planning and Designs (P&D). It will be rectified in future.
- Action should be taken to appoint separate staff on full time by fixing responsibilities to achieve the Project objectives.

### 3.3 Matters in Contentious Nature

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
Even though the local fund allocation for the year 2020 had not been made, Project had incurred Rs. 1.9 million during the year under review.	Not response	Budgetary estimate should be prepared as management tool and disburse accordingly.

### 3.4 Unutilized Resources

<b>No</b>	<b>Audit Issues</b> -----	<b>Responses of the Management</b> -----	<b>Auditor's Recommendations</b> -----
(a)	As per the loan agreement of the Project, US\$ 38 million equivalent to Rs.4,940 million had been allocated to National water Supply and Drainage Board to carried out the activities of the Project. However, US\$ 0.48 million equivalent to Rs 80.67 million which represent 1.26 percent had only been utilized as at 31 December 2020 even after a lapse of 4 years and 4 months from the commencement date of the Project due to poor performance of similar Project 01 and 02. Therefore, period of the Project had been extended up to 24 October 2022. As a result, commitment charges of the Project under the disbursement balance will be increased over the estimated amount of the loan agreement was observed.	We have identified a significant amount of saving under the tranche 1 & 2 due to depreciation of Sri Lanka rupee against US dollars. As a result, the Tranche 01 loan amount could not disbursement before 2020. Subsequently, ADB commitment percentage was increased up to 100% from 2019 to utilize the saving and disburse the loan amounts without further extension. As you are aware, That the Tranche-03 loan provided as an additional financing for Project 01 & 02 in August 2016 due to CMC loan requirement. However, the actual requirement of NWSDB was in 2019.	Additional funds should be requested after reviewing the actual future requirement of the Project.



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| <p>(b) Even though the period of the Project had been extended up to 24 October 2022. Revised disbursement plan and action plan for the additional financial purposes had not been prepared by the Project. As a result, utilization of funds during the period of the Project is in doubt.</p>  | <p>During the time of loan extension, the revised action plan was submitted to ADB. Herewith attached as annex for your reference (Annex 01 &amp; Annex 02)</p> | <p>Project has submitted overall action plan for the programme Project 1 and 2 detail action plan for the Programme project 3 should be submitted.</p> |
| <p>(c) Although a sum of Rs. 250 million of foreign funds allocation had been requested from treasury for the year 2020, actual allocation was received Rs. 227.79 million, However, no any allocation had been utilized during the year under review. Hence, budgetary allocation of foreign funds had not been requested in accordance to the revised action plan of the Project was observed.</p> | <p>Due to the prevailing Covid-19 situation, there was the signification amount of progress delay in awarding the tender and construction.</p>                  | <p>Action should be taken to utilize allocated resources within the scheduled period</p>   |

### 3.5 System and Controls

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendations</b> -----
<p>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>Not Response</p>	<p>Actions should be taken to implement an Internal audit</p>