

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 01 - 2020

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01 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 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 report to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Programme

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 is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Programme. The objectives of the Programme 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 was 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 financed by the Government of Sri Lanka. The Programme commenced its activities on 25 September 2013 and scheduled to be completed by 31 December 2016. Subsequently, the period of the Programme had been extended four times 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 01 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 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 Programme – Project 01.
- 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. million	Responses of the Management	Auditor's Recommendations
(a)	The commitment and interest charges amounting to Rs. 795 million charged by the lending agency from 2013 to 2020 were incorrectly shown in the financial statements under the Treasury Grant, and out of that Rs. 616 million charged up to 31 December 2019 had been brought to the financial statement as current year transactions instead of being adjusted as a prior year adjustment.	795.44	We will follow the auditors' recommendation when preparing the future financial statements.	Action should be taken to record under the proceeds of the ADB loan and adjust the Treasury Grant in the statement of financial position.
(b)	Exchange gain amounting to Rs.226.99 million had been erroneously deducted from work-in -progress instead of being shown separately under the source of finance in the statement of financial position.	226.99	We will follow the auditors' recommendation when preparing the future financial statements.	Exchange gain should be shown separately under the source of finance in the statement of financial position.
(c)	Loan interest amounting to Rs.182.55 million paid to the People's Bank by National Water Supply and Drainage Board on behalf of the Project had not been brought to the financial statements of the year under review	182.55	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 identify and account all relevant Project expenses before preparation of the financial statements.

(d)	Value Added Tax amounting to Rs.15.79 million had been set off against the proceeds from Government contribution in year 2017. However, it had not been brought to the Government contribution and separately shown as Value Added Tax in the financial statements as per the Accounting Instruction Circular No.01-2021dated 12 February 2021 of NWSDB.	15.79	The amount set off against proceeds from GOSL was Rs. 16,343,433.56 in 2017 and it is the amount claimed by NWSDB. The mentioned circular is related only to the VAT set off under vote basis.	Action should be taken to account under the government contribution and separately shown as value added tax account in the financial statements
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2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations -----	Non-Compliances -----	Responses of the Management -----	Auditor's Recommendations -----
According to section 2.3.2 of Management Service Circular No.01/2019 dated 15 March 2019	The Project Director should always be on full-time duty to ensure effective project management, but he was promoted to Additional General Manager of the National Water Supply and Deranged Board therefore his services were not achieved to the project full time.	The new position is not yet confirmed by the Management Service Department and it is only an acting post and also the Project 01 is at the latter stage. Management of the NWSDB will be take a decision of changing the project director position based on the confirmation of Management Service Department.	Action should be taken to obtain full time services of the Project Director to expedite the activities of the Project.

3. Physical performance

3.1 Physical progress

As per the progress report of the Project, the overall physical progress of the Project as at 31 December 2020 was 83.44 per cent. However, Project had achieved only 8.22 per cent of progress during the year under review. Cumulative performance of the each component of the Project was as follows.

No.	Activities	Units	Expected target	Target achieved as at 31 December 2020	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	System Rehabilitation for NRW reduction in Northern part of the Colombo City (ICB-1)						
	- Pipe laying works	Meters	206,229	205,448	It had failed to meet the expected target of eighteen percent of non-revenue water reduction in Colombo city.	<p>The rate of progress mainly affected due to following reasons.</p> <ul style="list-style-type: none"> Increased pipe laying length from the original scope Difficulties with work done by other authorities Adverse weather Terrorist attack COVID 19 pandemic Completed (6Nos) DMAs <18% 	Need to be closely monitored the works regularly in order to complete within the revised time frame.
	-connections Transfers (fully completed)	house holders	34,212	26,918			
	-Fully Completed DMA'S handed over to NWSDB	Nos	16	06			
		percentage	99.54	97.16			
	-Overall progress of the contract.						
(b)	System Rehabilitation for NRW Reduction in Eastern part of the Colombo City (ICB-2)						
	- Pipe laying (Including feeder main)	Meters	244,278	221,033	It had failed to meet the expected target of eighteen percent of non-revenue water reduction in Colombo city.	<p>The rate of progress mainly affected due to following reasons.</p> <ul style="list-style-type: none"> Increased pipe laying length from the original scope Difficulties with work done by other authorities 	Need to be closely monitored the works regularly in order to complete within the revised time frame
	- connection Transfers(Fully)	House	26,251	10,868			

	completed)	holders						
	- Fully completed DMAS & handed over to NWSDB	Nos	20	04				
	- Overall progress of the contract	percentage	74.52	71.09				
(c)	Construction of NRW Building at Maligakanda.	Percentage	100	73.54	Delays in the completion of NRW Building	The completion of the project had been delayed, due to establishment of Call Centre in sixth floor with the specialized furniture.	Need to be closely monitored the works regularly in order to complete within the revised time frame.	

- Adverse weather
- Terrorist attack
- COVID 19 Pandemic
- Completed (4Nos) DMAs <18%

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
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(a)	06 District metering areas out of 16 had been handed over to the National Water Supply and Drainage Board and could not reduce the considerable level of overall Non-Revenue Water even though 205,448 meters of rehabilitation works out of 206,229 meters had been completed as at 31 December 2020 after a lapse of 72 months from the date of commencement of the contract mainly due to the un-identifying highest non-revenue district metering area's at the initial stage and complete on priority basis.	Although DMA boundaries were marked initially, the whole Colombo city pipe system worked as one system. Therefore, it could not find the highest percentage of NRW DMAs.	Need to be closely monitored the works regularly in order to complete within the revised contract period.

- (b) 04 District metering areas out of 20 had been handed over to the National Water Supply and Drainage Board and could not reduce the considerable level of overall Non-Revenue Water even though 221,034 meters of rehabilitation works out of 244,279 meters had been completed as at 31 December 2020 after a lapse of 65 months from the date of commencement of the contract mainly due to the un-identifying highest non-revenue district metering area's at the initial stage and complete on priority basis.
- (c) Construction of 06 storied Non-Revenue Water Building under the Project at Maligakanda was scheduled to be completed within 18 months up to 23 October 2018 but as per the physical inspection done on 7 July 2021. Hence, it was observed that 28 months after a lapse from the scheduled completion date from the contract, no any floors of the building had been fully completed even up to 07 July 2021.

Although DMA boundaries were marked initially, the whole Colombo city pipe system worked as one system. Therefore, it could not find the highest % of NRW DMAs.

Need to be closely monitored the works regularly in order to complete within the contract period.

The progress of the project has been affected due to various reasons such as poor turnout of the employees to the site due to prevailing pandemic situation (last one and half year) & delay in manufacturing and importing foreign materials.

Instructions should be given to deploy the sufficient labor force to the site and need to be closely monitoring the works regularly in order to complete within the revised contract period.

3.3 Extraneous Activities/Payment made out of Project Objectives

Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
<p>As per the Project Administration Manual of the Programme, 07 Nos of crew cabs had been purchased at a cost of Rs.62.90 million under the Programme Project – 01 for the Non-Revenue Water Reduction team in Regional Support Service Centre of Western Central. However, 02 nos. of crew cabs procured at a cost of Rs.17.97 million had been transferred to the Regional Support Service Centers of Sabaragamuwa and Uva.</p>	<p>Although the crew cabs had not been taken over to the NRW team, the cabs were attached to the works relevant to NRW works.</p>	<p>A mechanism should be established to monitor the utilization of assets in order to achieve the Project objective.</p>

3.4 Matters in Contentious Nature

No	Audit Issues	Responses of the Management	Auditor's Recommendations
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(a)	As per section 14.9 of the contract agreement, retention money can be released on pro-rata basis for the partly completed and handed over contract works. Out of 16 DMA's in ICB-01 contract, 06 District Metering Areas (DMA) had been completed and handed over to the operational and maintenance division of the NWSDB. However, all retention money had been released contrary to the contract agreement.	Retention money is paid on a retention guarantee. This enables to improve of the cash flow of the contractor	Action should be taken to follow up the condition of contract.
(b)	Refundable deposit amounting to Rs 75.28 million had been paid through the proceeds of loan up to 31 December 2020. Out of that a sum of Rs.544, 275 had been recovered and handed over to the NWSDB instead of being refunded to the treasury. Hence the total amount of refundable deposits end of the project which equivalent to proceeds of loan amounts had been handed over to the NWSDB as unutilized loan proceeds instead of being refund to the treasury.	Since project cannot keep or utilize any funds received except the loan funds and GOSL proceeds, these refunds are sent to NWSDB. Project will communicate the auditors' concerns to the NWSDB management and will update the auditors.	Payment for refundable deposits should not be included as a BOQ item and loan proceeds should not be used for such payments. If there are such recovery balances at the end of the Project period, they should be transferred to the treasury as unutilized loan balance
(c)	The access road to the none revenue building of the Project was belongs to the CMC and it had not been acquired from CMC even up to 31 December 2020. Therefore, Project had agreed to pay Rs.42,000 per month as rental charges to CMC until the acquisition of the land. However, monthly rental charges relating to the period from July 2018 to 31 December 2020 had not been paid and provision had not been made in the financial statements as at 31 December 2020. Further, the CMC had requested to settle the outstanding rental to implement the acquired process.	Several discussions were made with the Hon. Mayor (CMC) regarding the Road, Stores and our buildings.	Immediate action should be taken to complete the acquisition process, due to final stage of the project works.

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| <p>(d) NWSDB had entered into rental agreement with the Urban Development Authority to rent a land for vehicle parking of CMC staff since the respective land of CMC had been used for Project construction. However, a sum of Rs.1.12 million of rental charges for the period from January to September 2020 had been requested by UDA as payable and it had not been brought to the accounts during the year under review. Further, a sum of Rs.4.52 million had been paid by the Project as a rental charge for vehicle parking up to 31 December 2019, both parties had not been come to the solution regarding this matter even in the final stage of the Project.</p> | <p>Several discussions were made with the Hon. Mayor (CMC) regarding this land.</p> | <p>Immediate action should be taken to resolve the rent a land for vehicle parking of CMC staff.</p> |
| <p>(e) As per section 4.2 of the condition of contract in ICB-01 and ICB-02 contracts, the contractor shall obtain (at his cost) a performance security for proper performance. However, in addition to that provision has been made for payment all bonds and Guarantees under the item No 2.01 in the bills of Quantities. As a result, Project had to pay Rs.69.22 million for bank charges to the contractors, due to ambiguity of the conditions of contract and preparation of BOQ.</p> | <p>After reviewing & evaluating the reasons, the approval has given by the Committee appointed by the GM, to make the payments.</p> | <p>Actions should be taken to preparation of contract documents without any ambiguities.</p> |
| <p>(f) As per the BOQ the provision for price escalation was Rs.600 million and a sum of Rs.1, 060.75 million had been paid in respect of ICB 01 and ICB 02 contracts, due to the time extensions. However, price escalation had been paid for the all-interim payments from the commencement date of the contact instead of extended contract period. Further, out of that a sum of Rs.360.81 million had been paid without obtaining required approval even up to 30 May 2021. In addition to that a sum of Rs 145.73 million had been incurred by the Project under the general expenses including maintenance of the PMU office and its staff due to time extension.</p> | <p>EOT was granted after evaluating the reasonable reasons. Accordingly, the expenses may be incurred.</p> | <p>Need to be closely monitored the works regularly in order to complete within the contract period.</p> |

3.5 Delays in commencement / Implementation / Completion of activities of the Project

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
Even though the Programme had incurred a sum of Rs 22,317 million by 31 December 2020, Non-Revenue Water percentage of the Colombo city remained at 38.87 percent as at 31 March 2021. Hence, it had been reduced only by 10.13 percent even after a lapse of 8 years from the commencement date of the Programme.	The commissioned length supports to decrease the NRW percentage in that commissioned areas.	Immediate action should be taken to complete the balance works.

3.6 System and Controls

No. ----	Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	A sum of Rs.226.26 million had been paid through the 27 Nos of variation orders under the ICB - 01 contract by IPC No.40 dated 15 December 2020. Out of that, Rs.23.45 million had been paid without obtaining the variation committee approvals.	Rates for some items are under negotiation with the Contractor. Therefore, we recommended the part for the above through the IPC in order to avoid the penalty for non-certifying Variation items.	An efficient mechanism should be established to expedite the negotiation process with the contractor to payment after obtaining the relevant approvals.

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| (b) | A sum of Rs 75.28 million had been paid to the Colombo Municipal Council (CMC) as refundable deposit for pipe laying works up to 31 December 2020 and 90 percent of laying works and 75 percent of permanent road reinstatement works of the Project had been completed by 31 December 2020. However, only Rs.544, 275 had been recovered from the deposit even up to 31 December 2020. | Refund requests to CMC for the handed over roads are already submitted. However, there is a considerable delay in CMC refunding process which has been addressed by the project. | An efficient mechanism should be established by both parties for handed over the roads and refund the deposits without delaying. |
| (c) | According to Management Circular No.05 of 26 July 2010, the activities of the Programme Project-1 had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board. Further, the Project office had not been taken action to appoint an internal auditor, as required by the Circular No.02/2016 of 10 June 2016 of the Department of Management Audit. | Please refer the attached Internal Audit response for this. | Actions should be taken to carry out an internal audit for the transaction of the Programme Project-1 |