

Greater Colombo Wastewater Management Project - 2020

The audit of financial statements of the Greater Colombo Wastewater Management Project for the year ended 31 December 2020 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 the Article II of the Project Agreement No.2557/ 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 I 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 to 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 2020.

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 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 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.

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

Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a) Value Added Tax amounting to Rs.72.19 million paid up to 31 December 2020 had been set off against the Contribution received from the Government of Sri Lanka.	Value added Tax had been set off against the contribution When capitalized the Project as per the Accounting instruction issued.	Total Government contribution should be shown in the financial statements.
(b) The Asian Development Bank has provided the same loan facility for the two projects implemented by the National Water Supply and Drainage Board and the Colombo Municipal Council and the Bank had charged a loan interest amounting to Rs. 162 million as at 31 December 2020. However, information required to identify the interest on the project separately had not been submitted to audit.	Interest charges and commitment charges recovered by the lending agency up to 31 st December 2020 had not been brought to the Financial Statement. For this clear Accounting Instructions had been issued in 2021 and at that time this Project was completed.	Total disbursement should be shown in the financial statements of the year under review.
(c) As per the financial statement of the Project, the direct payment during the year under review was Rs.1,325 million. However, as per the report submitted by the Department of External Resources it was shown as Rs.1,121.23 million.	As per the Financial Statement balance Rs. 1,325 million included the payments done through central bank Imprest Account, Final bill value and the Vat payment, done prior to get the VAT exemption. Department of External Resources balance Rs. 1,121.23 million and the difference of Rs. 203.76 million Reconciled with the Financial Statement balance of Rs. 1,325 million and the Reconciliation Statement attached.	Reconciliation should be prepared correctly. (ADB had not allow to settle VAT from ADB Contribution.)
(d) The Project had Purchased computer software at a cost of Rs.2.4 million to NWSDB mapping section. However, that amount debit to ADB contribution instead of being shown separately as assets transfer to NWSDB.	The purchased software package for Rs. 2.4 million transferred to mapping section and correction JV attached.	Action should be taken to account under the assets transferred to NWSDB.

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| <p>(e) Final contract bill amounting to US\$ 556,678 had not been disbursed even as at 31 December 2020. However, Project had been shown that amount under source of foreign contribution instead of being shown under the current liabilities in the financial statements.</p> | <p>Final contract bill amounting to US\$ 556,678 released in 2020 getting proper approval of the budget must entered to the 2020. Otherwise no budget approval to settle from current liabilities. Budget transferring request attached.</p> | <p>Action should be taken to account the transaction correctly.</p> |
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2.2 Non- compliance with Laws, Rules and Regulations

Audit Issue	Response of the Management	Auditor's Recommendation
<p>(a) As per Circular No MOFP/ERD/2007/2 dated 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project for the year ended 31 December 2020 is required to be submitted to the Auditor General on or before 31 March 2021. However, the financial statements had only been submitted on 28 October 2021.</p>	<p>Although the Financial Statements should submitted to Auditor General on or before 31st March 2021. Prevailing Covid Pandemic situation affected the staff of our section and we get the extension from the External Resources Department up to 31 December 2021.</p>	<p>Action should be taken to submitted financial statement to Auditor General on time.</p>
<p>(b) As per the Water Board Circular No 13/2007 dated 11 May 2007, after the Project activities completed, the Project should be submitted a balance assets report of the project to the General Manager (Supply). However, contrary to the above requirement Project Director had been handed over the remaining fixed assets to several section in the Water Board.</p>	<p>After the project completed, the balance stocks had been transferred to the respective water supply schemes which needed for maintenance. The used inventory items of the project office had been transferred to the required sections within the Water Board.</p>	<p>The Project should comply with the circular instruction.</p>

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) It was observe that the design of the work had not been prepared properly by the Project. As a result, the contractor had submitted 37 variation orders at a cost of US\$ 1,834,639. However, the Project had not agreed that amount and arbitration process continued up to November 2020.	According to the contract agreement, it was granted to go to adjudication process and the given report by the adjudicator attached herewith and agreed to pay US\$ 556,678 and it had been proceeded as Final Bill.	NWSDB should closely monitor the Project activities.
(b) Although the final interim payment bill pending as at 31 December 2020, the Project had commenced assets capitalization Process.	According to the Water Board side final bill proceeded to the payment and accounted as project cost. The total cost of the project took for capitalization process.	Assets capitalization should be commenced after the disbursement of final bill.

3.2 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
As per the financial statements of the Project, the work-in-progress as at 31 December 2020 was Rs. 1,414.26 million. However, as per the financial statements of the National Water Supply and Drainage Board, there was no work-in-progress shown.	This Financial Statements were prepared as per the requirement of Asian Development Bank before capitalization the project which was appearing Rs. 1,414.26 million work – in – progress.	Project capitalization should be commenced after the completion of the Project activity.

3.3 System and Controls

	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The updated Register of Fixed Assets had not been maintained by the Project, as required by Treasury Circular No. 842 of 19 December 1978.	The project has been maintained a records of Inventory items and Laptop transferring to the other divisions which was handed over to the audit.	Project should maintain Fixed Assets Register.
(b)	The Transaction of the Project during the year under review had not subjected to internal audit as per the Financial Regulation 133 and no Internal Auditor had been recruited as required by the Management Audit Circular No. 02/2016 of 10 June 2016.	Time to time Internal Audit has been checked the records of the Project.	Action should be taken to audit the activities by an Internal Auditor.