

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 - 2021

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 for the year ended 31 December 2021 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. 3029 and 3030-SRI(SF) dated 03 June 2014 entered in to between the Asian Development Bank and National Water Supply and Drainage Board. 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 project, 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 Project. The objective of the Project is to improve efficiency and financial sustainability of water supply and wastewater services in the Greater Colombo area. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 118 million equivalent to Rs.15,340 million and out of that US\$ 70 million equivalent to Rs.9,100 million or 59.3 per cent of the total estimated cost of the Project was agreed to be financed by the Ordinary Capital Resources of the Asian Development Bank and US\$ 18 million equivalent to Rs. 2,340 million or 15.3 per cent of the total estimated cost of the Project was agreed to be financed by the Asian Development Fund. The balance amount of US\$ 30 million equivalents to Rs. 3,900 million or 25.4 per cent was expected to be contributed by the Government of Sri Lanka. Further, out of the estimated total cost of the Project, allocation of US\$ 107.05 million equivalent to Rs. 13,917 million had been made for the activities of the Project, expected to be carried out by the National Water Supply and Drainage Board whilst US\$ 10.95 million equivalent to Rs. 1,423 million had been allocated for the activities of the Project expected to be carried out by the Colombo Municipal Council. This report consisted with the observations made on the activities of the Project implemented by the National Water Supply and Drainage Board. The Project commenced its activities on 03 September 2014 and scheduled to be completed by 30 June 2019. Subsequently, the period of the Project had been extended up to 24 October 2022.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme- Project 2 as at 31 December 2021 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 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 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations

According to section 2.3.2 of Management Service 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.

Non-Compliance

Project Director had been promoted as Additional General Manager, in covering up the duties of the consumer and asset management division of the Head Office from 2 February 2021 even though the programme Project one, two and three are implemented by PMU.

Response of the Management

Eng. Mr. Dhammika Perera former Deputy Project Director (GCWWMIP) was appointed as the Project Director on a full-time basis.

Auditor's Recommendation

Project Director should always be recruited on full time basis in order to ensure effective Project management.

3. Physical performance

3.1 Physical progress

The Project consisted with 13 activities, out of those 07 activities had only been fully completed as at 31 December 2021. As per the Progress report of the Project, overall physical and financial progress of the Project as at 31 December 2021 was 72.63 percent and 59.26 percent respectively. Accordingly, Project had achieved only 11.08 percent of physical progress during the year under review was observed. Progress of ongoing activities is as follows.

No	Activity	Units	Expected target	Target achieved as at 31 December 2021	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	System Rehabilitation for NRW Reduction in Western part of the Colombo City. (ICB -03)				Adversely affect the completion of Project and it was unable to reach the expected target of below 18 percent of non -revenue water reduction in Colombo city as planned	Due to unavoidable circumstances, the contract period had to extend considering reasonable reasons. However, the expected target of NRW has been reached up to now. However, Required actions were taken to	Corrective measures should be taken to avoid delays and contractors works should be closely monitored
	– Pipe laying (Including feeder main)	Meters	114,184	107,972			
	– Service Transfers	House hold	7,986	5,491			
	– DMA progress (Fully Completed and handed over to RSC)	Nos	18	04			
	– Overall contract progress	Percentage	95.1	84.7			
	• Estimated laying meters and service transfers had been revised.						

						catch up on the delay and complete the work within the contract period.	
(b)	System Rehabilitation for NRW reduction in Southern part of the Colombo City - (ICB 04)				Adversely affect the completion of Project and it was unable to reach the expected target of below 18 percent of non -revenue water reduction in Colombo city as planned	Due to unavoidable circumstances, the contract period had to extend considering reasonable reasons. Required actions were taken to catch up on the delay and complete the work within the contract period.	Corrective measures should be taken to avoid delays and closely monitored the contractors work
	- Pipe laying (Excluding feeder main)	Meters	217,716.92	149,075			
	- Service Transfers	House hold	32,461	5,640			
	- DMA progress (Fully Completed and handed over to RSC)	Nos	23	01			
	Over all progress of the contract	Percentage	80.4	61.39			
(c)	Construction of office buildings for Area Engineer office Pamankada.	Construction was not commenced due to unavailability of a land in time for construction and approvals had not been given by ERD for new constructions			Thereby, Construction of area engineer office at Pamankada is doubt full to build	The Construction of the proposed building was temporally suspended. However, this design can be	Land acquisition process should be completed at the initial stage of the Project and before the awarding of the

						used at any time once we receive approval.	construction contracts
(d)	Construction of proposed Training Centre, hostel building and canteen	Percentage	100	87.3	Delays of this construction may adversely affect the completion of Project	As aware, the existed 3 rd wave Covid 19 pandemic issue beyond control has caused a severe impact on the progress of the project, which led to the slip the project completion from its planned completion deadline given in EOT.	Corrective measures should be taken to avoid delays and closely monitored the contractors work
(e)	Training Equipment and Furniture for MDTD	Document preparation is in progress			Adversely affect the completion of procurement.	The tenders will be called from time to time to purchase the equipment & furniture as per the necessity.	Actions should be taken to complete before the closing date of the Project activities

(f) Consulting Services for Modernization of MDTD training system	Document preparation is in progress	Adversely affect the completion of procurement.	Internally available resources are used to prepare the Training center module and not called for external consulting services.	Actions should be taken to complete before the closing date of the Project activities
---	-------------------------------------	---	--	---

3.2 Matters in Contentious Nature

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>Even though, after a lapse of 7 years from the date of commencement of the Project activities by 31 December 2021, Project has failed to award the contract for construction of Area Engineer office at Pamankada due to unavailability of suitable land for construction. In spite of not completing the land acquisition process, three consultancy contracts had been awarded on three occasions regarding architectural, conceptual drawings and construction etc. Subsequently, they have been cancelled due to delays of the land acquisition process including land extent and changing the building scope etc. incurring an aggregate sum of Rs.28.19 million as consultancy fees. However, it was observed that, construction of area engineer office at Pamankada is doubt full due to unavailability of a land for construction and approvals had not been given by ERD for new constructions since the loan closing date of the Project will be on 24 October 2022. As a result of that Rs.28.19 million of consultancy fees and Rs.1.45 million of land acquisition charges incurred up to 31 December 2021 has become loss to the Project.</p>	<p>The Construction of the proposed building was temporarily suspended. However, this design can be used at any time once we receive approval.</p>	<p>Land acquisition process should be completed at the initial stage of the Project and before the awarding of the construction contracts</p>

3.3 Contract Administration

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>Only one DMA out of 23 DMAs had been fully completed and handed over to the NWSDB after achieving the expected target of NRW reduction. Nevertheless, 04 numbers of DMA works had been stopped from December 2021 due to abandoning the works by sub-contractors and one of the DMA works has been stopped due to unavailability of a sub-contractor and as road approvals were requested only for 4,908 meters instead of 63,734 meters was observed. According to that, balance works such as, pipe laying works of 68,641.92 meters, providing 26,821 numbers of house connection transfers, installation of 431 numbers of valve chambers ,340 numbers of road crossing works and decommissioning works etc. under the contract is in doubt to the audit whether the above works could be completed before the contract extension period ending in June 2022 and loan closing date of the Project on 24 October 2022.</p>	<p>Several roads in DMA 32B & 33A cannot be started until the completion of the Sewerage project. .</p>	<p>Instructions should be given to complete the balance works before the revised contract period and closely monitored the contractor's work.</p>
(b)	<p>Even though at the time of handing over, NRW percentage in respect of DMA15A and 16A was observed as 16 percentage and 8 percent respectively, later progress reports of the Project changes were observed in value of 15 A had increased up to 20 percent and value of 16A decreased to an abnormal amount of minus 4 percent respectively. However, action should be taken to find out the reasons for such variances and rectify them immediately. Further, completion of balance pipe laying works and handing over of DMAs before the loan closing date of the Project is doubt to the audit.</p>	<p>The NRW teams are continuously monitoring the DMA figures on daily basis and taking necessary actions to reduce the NRW figures.</p>	<p>Instructions should be given to complete the balance works before the revised contract period and closely monitored the contractor's work. and also continuously monitoring the NRW figures of handed over DMA s</p>

- | | | | |
|-----|---|--|---|
| (c) | <p>The works relating to 03 condominium schemes out of 11 were fully completed and handed over to the relevant authorities and two condominium schemes were at the final stage of completion. As a result only 140 numbers of connections transfers out of 1,144 equivalents to 12.34 percent had been fully completed by the date of inspection on 31 March 2022. Nevertheless, completion of balance rehabilitation works of 06 condominium schemes and 1,004 numbers of connection transfers within the two months balance contract period is doubt to the audit.</p> | <p>Contractor refused to accept the implementation of Rehabilitation of water supply system of condominium due to the difficulties in Rehabilitation works. Based on the negotiation with contractor following decisions were taken.</p> <p>Rehabilitation works in 5 condominiums has completed as of now and meter shifting has been carried out for 488 houses which is around 43% of total amount. Another 4 schemes expected to be completed by mid of July 2022.</p> | <p>Instructions should be given to complete the balance condominium schemes before revised contract period and closely monitored the contractor's work.</p> |
| (d) | <p>Contract for Supply Delivery and Installation of GIS software development of web application and training was awarded on 16 October 2018 at a cost of Rs.54.26 million and scheduled be completed within 12 months by year 2019. Project had planned to installation of comprehensive corporate GIS system at head office including with 40 numbers of regional office. Even though the initial scope under the contract had been completed, system modernization under the contract still had not been completed since the initial scope had changed by the head office</p> | <p>The integration with the NWSDB field service app is going well without any cost to the NWSDB. According to the IT department, this can be finalized end of August 2022. Maintenance is not compulsory for software licensing. But for the sustainability of the system for further enhancement License for the ArcGIS Server Enterprise software can be considered with local maintenance.</p> | <p>Immediate actions should be taken to complete the balance work and implement the new system without delaying and maintenance expenses should be reviewed with the contractor</p> |

- (e) Even though the civil construction works had been included under the contract for Thelawala Training Center, Canteen and Hostel Building, no any component had been included relating to the purchase of required office equipment and accessories for this building under the contract. Hence, it is doubt full whether buildings can be put to use immediately after completion of constructions due to lack of office equipment and accessories
- Contract scope is to construct the above building equipped with basic facilities such as provision of furniture, communication facilities & etc. Due to the present currency fluctuation in the country, the contingency limit of the contract has exceeded to complete the project with the optimal provision of facilities. Of course, the scope does not cover the items for office equipment.
- Attention should be drawn to furnish the required office equipment and accessories for this building before the completion of construction
- (f) Contract for Supply, delivery, Installation and Commissioning of Ultra-Sonic Flow Meters and Data Loggers was awarded on 31 May 2021 and scheduled to be completed within 12 months by 30 May 2022. Even though the ultra -sonic flow meters and related equipment had been purchased and received to the supplier's stores by 01 March 2022, installation and commissioning works under the contract had not been completed even up to 19 May 2022.
- The remaining work of the contract is the construction of 3 chambers at Maligakanda. Due to shortages of the construction material, there was a delay.
- Corrective measures should be taken to avoid the delays and closely monitored the contractor's work.

3.4 Observations made on Site Visits

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	As per the Physical inspection carried out on 7 April 2022 of the Construction contract for Thelawala training center, it was observed that the significant balance works to be completed at the time of inspection. In addition to that, external construction works had not been completed even up to inspection date of 7 April 2022. Hence, it is doubt full whether these balance works of the contract can be completed by 30 April 2022.	The various reasons have hindered the progress & completion of the project as scheduled.	Instructions should be given to complete the balance works before the revised contract period and closely monitored the contractor's works
(b)	As per the Physical audit carried out regarding the pipe laying works of 07 Nos of roads relating to southern part of the Colombo city, it was observed that the permanent road reinstatement had not been done even after a lapse of 08 months from the completion date of pressure testing and house connection transfers As a result, connection transfers ends are not covered and exposed to the outside and unsecured. Therefore, action should be taken to introduce alternative system to protect them.	Already informed the Contractor to take an alternative to close the open end of such house connections.	Immediate actions should be taken to close the open end of such house connections.

3.5 Extraneous Activities/Payments made out of the Project Objectives

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Project had procured 30 numbers of brand-new crew cabs and 10 numbers of water bowsers during the year under review. Further, documentary evidence was not available to prove the requirement of the procurement. However, contrary to the Project scope, 20 numbers of crew cabs and 05 numbers of water bowsers out of them, had been allocated for another 08 provinces outside from the Western Province.	The project had procured the equipment from the available savings to provide water to the people in remote areas during emergency periods. This requirement is included in the procurement plan.	Action should be taken to utilize Project funds in accordance to the Project objectives.
(b)	NWSB had entered in to 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 construction of Greater Colombo rehabilitation Project. However, a sum of Rs.1.63 million had been paid by Project as rental charges for the period from January 2020 to January 2021 land for vehicle parking. However, both parties had not been come to the solution regarding this land acquisition matter even in the final stage of the Project.	The discussions of the Management of NWSDB & CMC are going on. The payments were paid based on the GM's approval.	Action should be taken to utilize Project funds in accordance to the Project objectives.

3.6 Idle/ Unutilized/ Underutilized Resources

No Audit Issues

Responses of the Management

Auditor's Recommendations

(a) Programme Project – 02 had involved to pipe laying works of 331,900.92 meters and provide connection transfers to 40,447 house holders in 41 District metering areas (DMAS) under the rehabilitation and expand water supply system in Western and Southern part of Colombo city to delivering better water supply services in an effective manner by reducing non-revenue water percentage below 18 percent. However, only 05 DMAS out of 41 DMAS had been fully completed and handed over to the NWSDB after achieving the expected target of NRW even after a lapse of 87 months from the date of commencement of the activities of the Project. As a result, could not reduce overall NRW reduction in Western and Southern part of Colombo city up to 31 December 2021. Nevertheless, loan repayments have been commenced from year 2018 and it was paid Rs.1,629.44 million equivalent to US\$ 8.61 million before completion of the project activities and reduction of NRW. And also, commitment and interest charges amounting to Rs. 3.42 million and Rs.45.43 million respectively paid by the government as at 31 December 2021 over the allocated amount of loan agreement due to low disbursement and poor performance of the Project works.

Physical works of most of the DMAs in Package 03 and 04 have been already completed and new lines commissioned. However, due to issues related to existing pipes which do not have details, abandoning works not yet completed. However, every action has been taken to complete all these balance works and hand them over to NSWDB.

Need to take all necessary actions to complete the balance work and complete the Project before the loan closing date of the month of October 2022

3.7 Matters pointed out in Previous Audit Reports which remained unresolved

No Audit Issues

Responses of the Management

Auditor's Recommendations

(a) Mobilization advance amounting to Rs.577.67 million under local component and US\$ 4.15 million under the foreign component had been paid to the ICB 04 contract on 22 February 2017. However, Project had recovered only 68 percent of mobilization advance even after a lapse of initial contract period of 48 months. Further, mobilization advance amounting to Rs.574.19 million under local

The matter discussed with the contractor and actions have been taken to established new advance recovery method for speedy recovery of the advance payment.

Instructions should be given to expedite the works and immediate action should be taken to implement the new advance recovery method

component and US\$ 3.52 million under the foreign component had been paid to the ICB-3 contract on 01 March 2017. However, Project had spent 2 years from the construction to recover first advance recovery from the ICB-3 contractor and it had remained recoverable as Rs.131.41 million equivalent to 28 percent and US\$ 1.94 million equivalent to 55 percent as at 31 December 2021 even after a lapse of initial contract period and obtained first extension. Accordingly, the recovery of mobilization advances had been delayed for a long period due to low progress of the both contractors as well as contractors have been holding on these advances for a long period as obtained an interest free loan.

3.8 System and Controls

No Audit Issues

(a) According to the information received, total pipe laying length of the ICB -3 contract was 107,333.01 meters and out of that permanent road reinstatement was done only 64,577.01 as at 31 December 2021. However, only 24,213.09 meters of road lengths out of the permanent road reinstatements had been handed over to the relevant authorities. Even though the, completion of permanent reinstatements have been increased up to 69,558.84 meters by the date of 28 February 2022, no any road length had been handed over to the relevant authorities from 31 December 2021 to 28 February 2022. As a result, it was observed that, delays in the recoveries of security deposits from relevant authorities and Project has to maintain the permanent reinstatements for a long period

Responses of the Management

In the permanent reinstatement length of 64,577.01 m, there are a considerable amount of Tenement Gardens roads (narrow roads) which are not been taken over by CMC or another party. NWSDB -PIU will inspect and accept the roads during the DMA handing over to O&M.

Even though, we complete the permanent reinstatement work, CMC will not be taking over the roads until the completion of decommissioning works. Hence there is a delay in taking over the roads by road authority.

Auditor's Recommendation

Immediate actions should be taken to complete the decommissioning works

- | | | | |
|-----|---|--|--|
| (b) | A sum of Rs 274.18 million of price escalations had been paid instead of allocated amounted to Rs.225 million as at 31 October 2021 under the ICB-3 contract. Out of that Rs.53.61 million had been paid for the period of time extension between months of March 2021 and October 2021. However, if the contract had been completed within due period, additional price escalation expenses as above could have been avoided to the Project. In addition to that, a sum of Rs.49.18 million out of that had been paid without obtaining the variation committee approvals. | The contractor was paid the 20 MN as the idling cost of his resources, after evaluating the resources idled due to the Easter Sunday bomb blast and also granted the Extension of time considering the idling period.

The price escalation is paid to the contractor to recover the escalated cost, due to the price increases of material based on the price indices published by the CIDA, as per the conditions of contract. | Necessary actions should be taken by the Project management to complete the contracts within scheduled contract periods. |
| (c) | Action had not been taken by the Project to recover the security deposit valued at Rs.16.04 million in respect of 45 roads which had been completed and handed over to the Colombo Municipal Council under the ICB-4 contract in years 2019, 2020 and 2021 respectively. | CMC requested the soft copies of the As-Built drawings after forwarding all the documents. We have forwarded them & CMC agreed to reimburse the refundable deposits after receiving As-Built drawings. | All supporting details should be submitted by Project management to reimburse the refundable deposits |
| (d) | According to the Management Circular No.05 of 26 July 2010, the activities of the program me Project-2 had not been audited by the Internal Audit section of the National Water Supply and Drainage Board. | This will be replied by the IA, NWSDB | Actions should be taken to implement an internal audit |