

Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 03 - 2021

The audit of financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 3 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.3348-SRI dated 11 August 2016 entered into 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 Loan Agreements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme-Project 3, then Ministry of City Planning and Water Supply, presently the Ministry of Water Supply is the Executing Agency of the Programme -Project 3 and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objective of the Programme - Project 3 is to improve system 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 Programme-Project 3 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 3, 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 3 implemented by the National Water Supply and Drainage Board. The Programme -Project 3 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme- Project 3 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 scepticism 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. Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations

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.

Non-Compliance

According to the Circular the Project Director had not been assigned as full-time basis as he had been promoted as Additional General Manager of of the National Water Supply and Drainage Board from 2 February 2021.

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 and financial Performance

3.1 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 programme - Project 01, programme -Project 02 and Project Development assistance works. 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 38 million only US\$ 17.81 million equivalent to Rs 3,596.50 million which represent 46.86 percent had only been utilized as at 31 December 2021 even after a lapse of 5 years from the commencement date of the Project. Further, physical progress of the Project as at 31 December 2021 had not been prepared and submitted to the audit. However, progress of individual contracts relating Project preparatory works under the component of Project development assistance are as follows.

Component /Sub Component	Physical Progress as at 31 December 2021				Audit Issue	Response of the Management	Auditor's Recommendation
	No. of Individual contracts	No. of awarded contracts	Ongoing contracts	Completed contract			
Project development assistance					Affect to the completion of Project	Most of the contracts can be completed before the loan closing date. We are discussing with the top management and the ADB to utilize every savings before the end of the loan closure.	Immediate actions should be taken to complete the contracts
(i) consultancy contract	10	10	03	07			
(ii) Goods and works Contracts	23	23	04	19			
(iii) Under tender calling	21	-	-	-			

3.2 Contract Administration

Audit Issue

In practice, the Geotechnical investigation and Design works relating the Projects should have been carried out simultaneously. Accordingly, all feasibility studies, planning and design works in respect of 18 new Projects under the Project development assistance were completed and bids for the selection of contractors had been invited on 03 November 2021. However, Quotations of individual contracts for Geotechnical investigations of these

Response of the Management

The 18 packages are awarded in January 2022 and the works are in progress.

Auditor's Recommendation

Geotechnical investigations should be carried out simultaneously with the design works.

new Projects had been called only on 29 September 2021 and they had not been awarded even up to 31 December 2021. As such, value of Rs.173 million of Geotechnical contracts for above new Projects is doubt-full to the audit whether it is productive due to the design works had been completed before the Geotechnical investigations.

3.3 Delays in implementation, completion of project activities and under utilized projects funds

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	US\$ 35 million out of the total loan value of US\$ 38 million had been allocated for Additional financing for Programme project -1, Programme Project -2 and balance US\$ 3 million for expenses of Project Development assistance. However, only US\$ 17.81 million equivalent to Rs.3,596 million which represent 46.87 percent had been utilized as at 31 December 2021 even after a lapse of five years from the date of commencement of the activities of the Project. As a result, significant amount of Rs.49.29 million had been charged by the donor agency as commitment charges due to low disbursements. Further, it was observed that the possibility of utilizing the balance loan amount of US\$ 20.19 million equivalent to 53.11 percent prior to the Loan closing date of the Project on 24 October 2022 is doubt to audit due to low progress of the package - 4 contract under the Program Project-2.	We have discussed with ADB, ERD and the NWSDB higher Management to disburse the loan amount before loan closing. Accordingly, It was decided to purchase chemicals, connection materials, and repair materials as soon as possible.	Immediate actions should be taken to complete the balance works before loan closing date
(b)	A sum of US\$ 3 million of the Project had been allocated for prioritized Projects implementation. Even though the Geotechnical investigations and topographical survey. However no any Project had been awarded even up to 31 December 2021 due to document evaluation and tender calling is still in progress.	Out of 11 projects, 5 Nos. were selected to proceed. All documents, for these 5 Nos. projects have been prepared.	Remedial actions should be taken to award all Projects

3.4 Payments made out of the Project objectives

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Project had recruited a senior engineer for the Project during the year under review with a monthly salary of Rs. 180,000. However, he was assigned for works supervision at Kethhena water treatment plant of the ongoing Aluthgama, Mathugama, Agalawatta integrated water supply Project and a sum of Rs.1.08 million had been paid as salaries relating to the period between the months of June 2021 and November 2021 without attending to the activities of the Project.	He attended to the project activities such as NRW – O&M coordination matters.	Action should be taken to utilize Project funds in accordance to the Project objectives.
(b)	Project had entered in to individual consultancy contracts during the year under review with 2 legal specialists and 2 procurement specialists at a cost of Rs. 9.16 million under the component of project development assistance. Out of that Rs.667, 000 had been paid for obtaining the consultancy services relating the procurement and legal issues involving other five ongoing water supply and waste water Projects which were out of the Project scope.	The amount of USD 3 million in Tranch 3, is needed for the island-wide projects with ADB concurrence.	Action should be taken to utilize Project funds in accordance to the Project objectives.

3.5 System and Controls

Audit Issue

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.

Response of the Management

This will be replied by the IA, NWSDB.

Auditor's Recommendation

Actions should be taken to implement an internal audit