

National Water Supply and Drainage Board - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Water Supply and Drainage Board (“Board”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

1.3 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.

In preparing the financial statements, management is responsible for assessing the Board’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the National Water Supply and Drainage Board.

1.4 Audit Scope

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 the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
i.	<p>Contrary to paragraph 32 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), an abnormal credit balance of trade receivables amounting to Rs.8,506,031 which represent the current assets had been set off against payables and identified as non-operating liabilities in the statement of financial position at the end of the year under review. Similarly, a debit balance of retention received amounting to Rs.1,078,112 which represent the current liabilities had been set off against receivables and identified as non-operating assets in the statement of financial position at the end of the year under review. Apart from that a sum of Rs.51,411,173 and Rs. 65,226,954 written off as bad debts during the year under review in relation to Dehiwala Manager office and Moratuwa area engineer office had been set off against the metered sales instead of recognized as other operating expenses.</p>	<p>Due to the manual system being computerized these balances were rolling over from the year 1999. Committee headed by Addition General Manager was appointed to rectify this issue was in progress.</p>	<p>Ensure that comply with the provisions in LKAS 01 when presenting financial statements.</p>
ii.	<p>Contrary to paragraph 60 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), Board had identified non-operating assets amounting to Rs.149,681,812 which includes stocks, debtors, advances and cash book balances and presented it as highly illiquid items without considering liquidity of each item separately.</p>	<p>This has also been rolling over from the year 1999 as a result of computerizing manual system.</p>	<p>-do-</p>
iii.	<p>Contrary to paragraph 9 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), stocks with an aggregate value of Rs.632,408,899 which had not moved more than three years period had been recorded</p>	<p>In compliance with para 6 of LKAS 2, it is impracticable to calculate. it cannot say</p>	<p>Ensure that comply with the provisions in LKAS 02 relating to the</p>

at its cost without assessing their net realizable values.

these all items have recognition of the value of recorded as nonmoving over continuous three inventories. years period. Therefore, it's no needs to assess the net realizable value for those nonmoving stocks

- iv. Contrary to paragraph 07 of the Sri Lanka Accounting Standard on Statement of Cash flows (LKAS 07), a deposit made in a saving account amounting to Rs.1,455,412 and a deposit made in Escrow Savings Account amounting to Rs.11,828.23 million had been categorized under Financial Assets and Investments respectively in the Statement of Financial Position. However, it was observed that an amount equivalent to Rs.2,065.8 million had been utilized during the year out of balance in escrow saving account.
- v. Contrary to Paragraph 41 and 42 of the Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08), rental income received from Ministry of Water Supply for the year 2020 amounting to Rs.3,797,412 and Sewerage income of Rs.354,080 and Rs.1,078,301 received in respect of the year 2020 in Seethawaka manager office and Galle manager office respectively had been identified as income for the year under review. Further, sewerage income during the year had been debited by Rs.436,090 to rectify the error made on 07 February 2020 in relation to Greater Colombo Sewerage Section and a sum of Rs.700,000 which should have been identified as a prior year adjustment to the cost of leased hold lands had been erroneously identified as transfer of lease hold land during the year under review. Apart from that Rs.22,696,939 which had been recognized as billing income of the proceeding years in relation to Colombo City South Region had been identified as deductible adjustments during the year due to erroneous bills raised. However, without taking action to adjust it as per the Paragraph 41 and 42 of the Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08), it had been charged to the metered sales of the year.
- The deposit made in the Savings Account in the Bank of Ceylon is not made with an intention of using it in the short run. Therefore, this can be excluded from the operational activities in the cash flows.
- Rental income received from Ministry of Water Supply will be adjust in the correct year. The correction entry of Rs.22,696,939 created for adjustment of erroneous bills issued for the month of February 2021.
- Ensure that comply with the provisions in LKAS 07 when categorizing assets as Current and Non – Current.
- Ensure that comply with the provisions in LKAS 08 when restating financial statements for errors.

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| vi. | Repair expense of Wakwella water treatment plant & building amounting to Rs.5,855,591 incurred during the year 2018 and 2019 had erroneously been identified as work-in progress. However, in order to make the correction similar amount had been identified as expenditure incurred during the year instead of being adjusted in terms of section 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Error (LKAS 08). Further, a sum of Rs.1,224,986 received during the year 2017 as interest in respect of the fixed deposit bearing the number 80836249, had been erroneously credited to cash in transit account during the year 2017. However, it had been corrected during the year under review after recognizing as income for the year instead of being adjusted to the retained loss at the beginning of the year as per the above provision. | It will be adjusted as prior year adjustment in the year 2022. | Ensure that comply with the provisions in LKAS 08 when restating financial statements for errors. |
| vii. | An additional provision for depreciation of Rs.293,125 had been made during the year under review due to changing the five (05) categories of eight (08) fixed assets instead of being recognized in terms of section 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Errors (LKAS 08). Further, an amount equivalent to Rs.1,252.33 million exceeding the additions made to the non-current assets during the year had been transferred from the cost of property plant and equipment instead of being recognized in terms of section 42 of the above standard. Apart from that as per the calculations made by audit an under provision for depreciation of Rs.845,272 had been made to the retained loss at the beginning of the year as retrospective adjustments for changing the five (05) categories of eight (8) fixed assets. Hence the retained loss and the provision for depreciation at the beginning of the year had been understated by similar amount. | NWSDB has already ascertained the total amounts to be adjusted for respective past years and adjusted assets worth 4.8mn and balance amount to be incorporated to prior years in 2022 Financial Statements. | Ensure that comply with the provisions in LKAS 08 when restating financial statements for errors. |
| viii. | As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful lives of | It is impracticable to value the asset base of the Board as there is an immense asset base scattered around the country. | Ensure that comply with the provisions in LKAS 16 regarding fully depreciated assets that are already |

<p>the fully depreciated assets amounting to Rs.2,604,392,336 related to 17 categories of fixed assets still in use had not been reviewed and accounted accordingly. Apart from that major spares amounting to Rs.396,328,070 which had been remained more than 20 years period had also been depreciated using the rate of 5 percent without reviewing their expected useful lives.</p>	<p>being used by the Board.</p>
<p>ix. Contrary to the provisions in the Sri Lanka Accounting Standard on Accounting for Government Grants and Disclosure of Government Assistance (LKAS 20), foreign grant balances aggregating to Rs.10,445.59 million relating to 29 projects which remained without being amortized over 15 years and Rs.3,258.98 million relating to 05 projects which remained without being amortized over 12 years had been brought to the accounts as at 31 December 2021. The impact on non-amortization to the financial statements could not be ascertained in audit as there were no details available relevant to those foreign grants. Further, contrary to the paragraph 12 of the standard an amount equivalent to Rs. 110,142,908 identified as depreciation of 13 categories of fixed asset items had been debited to separate foreign grant accounts as amortization without separately identifying the specific project relating to each of the foreign grant. And hence an abnormal debit balance aggregating to Rs.110,142,908 was observed in foreign grant</p>	<p>In compliance with para 14 of LKAS 20, relevant grant funded assets were amortized throughout the period.</p> <p>Ensure that comply with the provisions in LKAS 20 regarding amortization of foreign grants.</p>
<p>x. Inventory items valued at Rs.27,669,420 received from the contractor of Ruhunupura Water Supply Scheme which had been identified during the stock verification of the year under review in Hambanthota Manager Office and stock items valued at Rs.52,739,979 received to the Akkareipattu manager office as grants had been recognized as foreign capital grants without properly identifying the source as per the paragraph 03 of the Sri Lanka Accounting Standard on Accounting for Government Grants and Disclosure of Government Assistance (LKAS 20)</p>	<p>Therefore Rs.27,669,420.00 value of inventory accounted against grant Account.</p> <p>Ensure that comply with the provisions in LKAS 20 regarding recognition of the source of foreign grants.</p>
<p>xi. Contrary to the provisions in the Sri Lanka Accounting Standard on Investment Property (LKAS 40), the Carrying value of Investment Property amounting to</p>	<p>The building currently occupied by the Ministry of Water Supply is</p> <p>Ensure that comply with the provisions in LKAS 40</p>

<p>Rs.328,259,619 had been shown as Property Plant & Equipment, instead of been shown as Investment Property as at 31 December 2021. Further, as per the paragraph 75 (f) (i) and 79 of the standard, income from Investment Property had not been disclosed and the Board had not made proper disclosures with regard to methods of depreciation, useful lives or rates of depreciation, the gross carrying amount and the accumulated depreciation at the beginning and end of the period and amount of impairment.</p>	<p>judgmental as per paragraph 14 of LKAS 40 to recognize as Investment Property. Hence as per the paragraph 75 (C) of the above standard such adjustment in the Financial Statement is not required.</p>	<p>regarding recognition of Investment Property.</p>
<p>xii. Contrary to section 5.5 of the Sri Lanka Accounting Standard on Financial Instruments (SLFRS 09), a provision of Rs.30,617,873 for impairment on sewerage debtors and other debtors had been done based on a fixed rate without identifying the expected credit loss.</p>	<p>This treatment in expected credit loss method in SLFRS 9 would not make a significant change to the balance.</p>	<p>Ensure that comply with the provisions in SLFRS – 09 regarding provision for impairment for debtors.</p>
<p>xiii. Contrary to section 12 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38), a sum of Rs.9,593,438 which had been identified as furniture & fitting, other equipment, plant & equipment etc. during proceeding years, had been identified as intangible assets in relation to Regional Support Centre (Central) during the year without properly satisfying the criteria of identifiable intangible assets. However it was observed that proper adjustments had not been made in relation to the cost, accumulated depreciation and retained losses at the beginning of the year to reflect the effect of changing the category of above intangible assets as required by Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Error (LKAS 08) instead of that it had been shown as additions to the intangible assets during the year under review.</p>	<p>The necessary adjustments will be done by the costing division of the Head Office.</p>	<p>Ensure that comply with the provisions in LKAS 38 regarding the recognition of intangible assets.</p>

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
i. As per section 3.2.1 of accounting policies submitted with the financial statements, the balance of inventory at the end of the year under review is to be valued at weighted average cost method. However, during the audit test check it was observed that the inventory balance taken from the management information system had not complied with the weighted average cost method due to abnormal price deviations between stock receipts and issues. Hence, accuracy of balance of inventories in the financial statements cannot be verified in audit.	Until the IMS fully complete, the higher price variance which arise through the system, will correct through stock adjustment account.	Should comply with the accounting policies when preparing financial statements.
ii. As per section 3.2.1 of accounting policies submitted with the financial statements, a provision for obsolete and slow moving stocks should be made out of balance of inventory. However, as per the books of accounts provision for obsolete and unserviceable stocks amounting to Rs.236,958,510 had only been made without making any provision for slow moving stocks.	For inventory provision it is consider only obsolete and unserviceable items.	-do-

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
i. Economic Service Charges (ESC) paid during the year 2019 amounting to Rs.138,860,749 had been erroneously identified as income tax expense in the statement of comprehensive income of the year under review without making detailed income tax computation in order to recognize actual income tax expense for the year under review.	The Economic Service Charge (ESC) has been clearly indicated as expenditure in the Statement of Comprehensive Income of the Financial Statement for the year ended 31.12.2021.	Ensure the accuracy of income tax expenses in the statement of comprehensive income.
ii. Economic Service Charge for the year of assessment 2016/2017 had been paid based on 0.25 percent even though rates had been revised to 0.5 percent with effect from 01 April 2016. As a result, an assessment had been made by the Department of Inland Revenue for Rs.128.76 million including penalty. According to the records of the Board Rs.66.37 to be paid by the	Discussion is being taken place with the department on this matter.	Actions need to be taken to make the required provision for ESC and to pay.

Board (excluding penalty) due to rate changes. However, no provisions had been made for the balance tax payable in the books of accounts even at the end of the year under review.

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| iii. | During the Board of survey of the year 2015, it was observed that fixed assets with an aggregate value of Rs.65,852,393 in relation to 16 water supply schemes in Kurunegala Regional office were not in usable condition and remaining as fixed assets for a long period. However, no proper actions had been taken to remove them from books of accounts even at the end of the year under review. Further, as per calculations made by audit, it was revealed that Rs.851,398 had been made for provision for depreciation during the year under review as well for proceeding year for the 42 depreciable items valued at Rs.40,605,148. | After obtaining the approval action will be taken to remove the values of these assets from the books. | Actions need to be taken to dispose unusable assets and remove them from books of accounts. |
| iv. | Three vehicles bearing the number 252-7905,252-8054 and PA-2052 belonging to Soysapura and Kolonnawa Sewerage sections valued at Rs.4,900,000 had not been accounted in the books of accounts even by the end of the year under review. Further, as per calculations made by audit a provision for depreciation amounting to Rs.445,000 should have been made for those vehicles annually. | These have been taken to Accounts as at 30.06.2022. | Ensure the accuracy, completeness and existence of fixed assets recorded in books of accounts. |
| v. | Four items of fixed assets which had not been recorded in the fixed assets registers or books of accounts of the Board had been disposed during the year under review. However, the sale proceeds of disposal amounting to Rs.1,178,000 had been recognized as profit for the year without making any prior year adjustments properly for provision for depreciation after taking into account the date of purchase. | The cost of the trailer (46-5186) is accumulated to the tractor bearing number 49-0557. Rest of the three vehicles, were not recorded in the GL and no provisions had been made for depreciation. Accordingly, Sales proceed has been charged to income statement as profit from disposal of assets. | Ensure the accuracy of calculation of profit on disposal. |

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| vi. | In relation to five (05) cost centers in Ampara, Jaffna, Batticloa and Central North region fixed assets with an aggregate value of Rs.24,797,847 could not be verified and physically not existed as per the physical verification reports and fixed assets registers. However, without taking actions to remove them from books of accounts, a provision of Rs.605,749 had been made for depreciation during the year under review. | As per physical verification report, these fixed assets are verified and physically exist. Provision for depreciation had been made during the year and there were no omission. | Ensure the accuracy, completeness and existence of fixed assets recorded in books accounts. |
| vii. | As per physical verification reports of Central North Regional Support Centre, Vavunia, Jaffna, Eastern, Ampara, Akkareipattu and Batticloa regions it was observed that free hold buildings, structures, infrastructure, computer & other equipment, survey equipment, mobile equipment etc. with an aggregate value of Rs.52,399,850 in relation to twenty two cost centers had been damaged, removed from usage and demolished. However, without taking any actions to remove them books of accounts, a provision of Rs.1,637,717 had been made for depreciation during the year under review. | Disposal is authorized by means of the Board paper and concurrence of the treasury. This will normally take a substantial time. | -Do- |
| viii. | Sixty six (66) items of fixed assets amounting to Rs.946,780,882 which had not been clearly identified during Board of surveys of Central North Regional Support Centre, Mathale, Katugasthota, Vavunia, and Jaffna regions had been included in the fixed assets registers and books of accounts and provision for depreciation amounting to Rs.39,211,284 had been made on them. | This will be corrected in the next fixed asset verification. | -Do- |
| ix. | As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2021 were Rs.7,733,111,838. However, provision for impairment had been made only for debtors amounting to Rs7,662,021,591. Hence no provision had been made for the debtors aggregating to Rs.71,090,247. Apart from that no provisions had been made for the other debtors of Rs.3,743,920 included in non-operating assets of | The impairment calculation was based on actual figures given by the commercial system. | Ensure accuracy of provision for impairment for debtors. |

financial statements and remained in the books of accounts for more than 5 years.

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| x. | Trade debtors amounting to Rs.1,243,209 which had been approved to write off by the Department of Public Enterprise on April 2021 had been adjusted to the retained losses at the beginning of the year as prior year adjustment instead of charge to the profit for the year under review. And hence profit for the year had been understated by similar amount. | The journal voucher is being prepared as prior year adjustment to debit 685 ledger accounts. | Ensure the accuracy of amount charge to the profit as bad debts written off. |
| xi. | A sum of Rs.12,697,619 paid by the Board as value added tax to the contractors for the projects had been erroneously identified as work in progress instead of accounted them as VAT receivables even though they have been already claimed against output VAT of the Board. Hence balance of work in progress had been overstated and VAT receivables had been understated in the financial statements by similar amount | It will be corrected. | Action should be taken to account VAT paid to suppliers accurately. |
| xii. | As per the information received, the cost of one hundred fourteen (114) completed and commissioned Water Supply and Rehabilitation Projects amounting to Rs.70,625.98 million had remained in the work-in- progress as at 31 December 2021 without being capitalized. | Action will be taken to transfer them to assets. | Actions need to be taken to capitalize the completed and commissioned water supply and rehabilitation projects. |
| xiii. | Out of advances received for rechargeable works, a sum of Rs.171,985,691 relating to 44 projects in Akkareipattu and Ampara Region, Western Central Regional Support Centre and Western South Regional Support Center had been completed from the year 2014 to end of the year under review. However, actions had not been taken to capitalize them or transfer the remaining balance to relevant income account even by 30 April 2022. | They will be completed in the year 2022. | Actions should be taken to credit the advances received for rechargeable works to the relevant income account once the projects are completed. |

xiv.	It was observed that the Board had made prior year adjustments in the financial statements of the year 2020 and 2021 pertaining to years 2018, 2019, and 2020. As a result, the retained loss as at the end of year 2020 is distorted by Rs.123.22 million. Hence, the possibility for making adjustments to the profit for the year under review in the forthcoming year could not be ruled out in audit.	As per the LKAS 8 it is a regulatory requirement to correct the prior period errors. Hence the Board has complied with the said requirements.	Actions need to be taken to avoid distorting profits by making prior year adjustments as a practice.
xv.	In respect of seven (07) Projects, the balances aggregating to Rs.198,729,791 shown under the work-in-progress are remained unchanged over twelve years without being investigated in order to make necessary adjustments in the financial statements.	At different stages valuation and approval for completion has to be obtained. These said projects are still in the above process.	Actions need to be taken to capitalize the completed and commissioned water supply and rehabilitation projects.
xvi.	It was observed that a sum of Rs.12,506,980 in welfare fund had been adjusted against source of income of capital recovery charges in the financial statements submitted to audit without any reason and hence net profit for the year under review had been overstated by similar amount in the statement of comprehensive income. Further, it was observed that it includes Rs.1,199,700 which had been received in respect Corporate Social Responsibility Fund for the year 2020.	This is an accounting adjustment that has been doing consistently over the period just to disclose this transaction.	Ensure the accuracy of accounting adjustments made and the presentation of financial statements.
xvii.	In terms of the Memorandum of Understanding entered in to between Kurunegala Urban Council and Board during March 2021 for the maintenance of the Greater Kurunegala Sewerage System a monthly income of Rs.2.5 million is to be received from the urban council. However, the income for the five months commencing from August to December 2021 amounting to Rs.12.5 million had not been recognized in the books of accounts.	Instructions have been given to maintain debtors register and follow up monthly to collect sewerage charges.	Ensure the accuracy of sewerage income recognized.
xviii.	Long outstanding balances of assets and liabilities amounting to Rs.149,748,448 and Rs.71,927,749 respectively which includes other debtors, advances, trade creditors, unclaimed salaries, etc. had been identified as non-operating assets and non-operating liabilities without taken actions to	Due to the manual system being computerized these balances were rolling over from the year 1999.	Actions need to be taken to clear the non-operating assets and liabilities balances.

clear such balances. Further, an unidentified prior year balance of Rs.95,796,513, stock balance of Rs.22,007,307 in four regions and bank balances of Rs.5,906,882 remained in the above mentioned balance as non-operating assets without taking actions to investigate and settled.

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| xix. | Stolen stocks in Kelaniya region five years back amounting to Rs.2,549,788 and stock shortage of Rs.1,211,323 in Western Central Regional Support centre (Kohuwala) and Rs.1,633,256 in kilinochchci engineer office had been included in the inventory even as at 31 December 2020. However, actions had not been taken to recover such losses from respective officers. | These stock balances were remained due to an ongoing inquiry. When the inquiry has been finalized an action will be taken to write off from the books of accounts.
Kohuwala Stock Shortage
The stock worth of Rs.218,857.64 was identified as book entry correction. Police enquiry for stock worth of Rs: 270,572.40 are in progress and awaiting judgment. Balance of Rs.721,893.47 is being under further investigation. | Action need to be taken to remove such stock balances from books of accounts and take immediate actions to recover the losses from responsible officers. |
| xx. | As per the Cabinet decision taken on 02 July 2020, the interest cost on loan of Rs. 30 billion obtained from National Savings Bank is to be borne by the General Treasury and the Board had incurred Rs.699,702,314 as interest on that loan during the previous year. However, only Rs.659,277,279 had been identified as receivables from Treasury in the financial statements even for the year under review and it had not been recovered from Treasury even by the end of March 2022. | As per the cabinet decision such cost is borne by the treasury. Further, it has been accounted interest paid by the Board. | Actions should be taken to rectify the error on recognition of receivables from Treasury. |
| xxi. | A sum of Rs.821,996,056 which should have been identified as interest expense for the preceding year (including Board and treasury portion) had been erroneously identified as interest for the year under review in respect of on- going six foreign | The Actual interest expenses in relation to respective projects are identified at the time of interest payment | Ensure the accuracy of interest expense recognized as work in progress |

	funded projects. Hence the work in progress at the beginning of the year had been understated by similar amount.	notification received from the financier and we have charged estimated interest expenses relevant to year 2021 as accrued interest expenses.	in the financial statements.
xxii.	As compared with the confirmations received from banks in respect of accrued interest on loans of seventeen (17) local and foreign funded projects, it was observed an under provision of Rs.318,850,651 had been made. Hence, the profit for the year under review and accrued interest at the end of the year had been understated by similar amount.	The bank has informed the amount of interest as at 30.12.2021 and this amount has been accrued at the end of the financial year. But actual interest for the bank confirmation is given for 31.12.2021.	Ensure the accuracy of calculation of accrued interest on loans.
xxiii.	In relation to Biyagama and Seethawaka Manager offices, sewerage income of Rs.5,013,530 for the month of September and sewerage income of Rs.8,040,601 for the month of August had been accounted twice. Hence, the loss for the year under review had been understated and sewerage debtors at the end of the year had been overstated by Rs.13,054,131.	In relation to Seethawaka, already arranged to make prior year adjustments to correct that overstated entry.	Ensure the accuracy of recognition of sewerage income in the financial statements.
xxiv.	As per the calculations made by audit the balance of interest receivable on investments at the end of the year under review had been overstated by Rs.1,500,542. As a result, retained loss at the beginning of the year and loss for the year under review had been understated by Rs.1,476,322 and Rs.24,220 respectively.	It will be rectified in the year 2022.	Ensure the accuracy of interest income recognized in the financial statements.
xxv.	An interest of Rs.302,055 relating to the year 2020 (28/12/2020 to 31/12/2020) with respect to fixed deposit bearing the number 85304025 had been identified as interest income during the year as well as for the preceding year. Further, opening balance of interest receivable with respect to the fixed deposit bearing the number 85304053 had been recovered with a decrease of Rs.86,302 during the year.	The balance interest receivable amount of Rs. 86,301.37 with respect to the fixed deposit bearing the number 85304053 has been recovered and error has been rectified in the year 2022. The actual interest income related to fixed deposit (85304025) was correctly recorded	Ensure that interest income had been recorded correctly to the relevant period and opening balance of interest receivable account is recovered during the year.

after reversing the interest receivable amount of Rs. 302,054.79 on 29 December 2021.

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| xxvi. | An interest of Rs.4,986,301 relating to the period of 30 September 2021 to 30 December 2021 had not been recognized as interest income during the year under review with regard to the fixed deposit bearing the number 83641912.Hence profit for the year under review had been understated by similar amount. | It had been recorded on 31 January 2022. | Ensure the accuracy of interest income recognized during the year. |
| xxvii. | General expenses of Rs.2,816,590 (including special advance of Rs.80,198) incurred in respect of Greater Colombo Water & Waste Water Improvement Investment Programme had been accounted twice in work in progress and cash imprest account (00/2/59/289/1) of the Board. As a result an abnormal credit balance of Rs.2,816,590 was observed in cash imprest account. Similarly, work in progress balance at the end of the year had been overstated by similar amount (including special advance of Rs.80,198). | The correction entry has already been posted to the respective ledger accounts. | Ensure that expenditure incurred is correctly posted in the General Ledger. |
| xxviii. | Without taking action to dispose auction-able stock items amounting to Rs.131,828,414 in forty regions, it had also been identified as inventory in the financial statements. | These represent actionable items which already send for auction and not exist in the stores premises at the stock verification period. | Actions should be taken to dispose the auction-able stock items and to remove from the inventory. |
| xxix. | A Pipe Cutting machine with a cost of Rs.2,000,000 purchased prior to the year 2000 and remained at warehouse of Western Production Regional Support Centre had been identified as an Inventory item even by the end of the year under review without taking any actions to capitalize. | It will be capitalized when it is being issued. | Fixed assets purchased and fulfill the criteria of recognizing should be capitalize and prove for depreciation. |

xxx.	A Water bowser valued at Rs.3,197,000 condemned during the year in Kaluthara Region had not been removed from books of accounts even by the end of the year under review and a provision of Rs.159,850 had been made as depreciation in the books of accounts during the year under review.	A team was appointed to revalue the mentioned items and take into accounts in the year 2022.	Ensure the accuracy and completeness of fixed assets recorded in the books of accounts.
xxxii.	Action had not been taken to record the value of stock items received during November 2018 from Road Development Authority to Waskaduwa warehouses under Western South Regional Support Center in the books of accounts even at the end of the year under review. However, the impact on omission to the financial statements could not be ascertained in audit as there were no details available.	Action will be taken to rectify the issue.	Ensure the accuracy and completeness of balance of inventory in the books of accounts.
xxxiii.	An unidentified balance of Rs.155,974,054 remained in stock adjustment account at the end of the year under review had been taken into account as inventory in the financial statements without taking any actions to clear them. However as per the random test check it was observed that an identified stock shortage of Rs.2,086,329 in Mathale, Kohuwala, Jaffna Kilinochchi warehouses, Bandaragama IOC office and Wariyapola Ground Water section had also been included in it without taking actions to remove them from books of accounts after proper investigation. Further out of stock adjustment balance of Rs.81,407,868 relating to Matale regional office, variation of Rs.41,739,680 had been recognized due to failure of recording stock transactions during preceding years. However, proper actions had not been taken to clear them or take actions against the responsible officers even by the end of the year under review instead in had been identified as inventory in the financial Statements.	Higher price variance identified during the stock verification 2021 had transferred to stock adjustment account until reconcile the real variance and action had been taken to reconcile and clear the entries there after. Few stores have been identified stock shortages and those were recorded in books of accounts until the investigation procedure is completed. A committee has appointed to rectify the stock shortage of Rs. 81,407,868. copy of the verified stock balances in Kohuwala was sent to ADDL. GM (HRM) to hold an investigation. The stocks balances in Kelaniya were remained due to an ongoing inquiry.	Immediate actions should be taken to identify the reasons for the differences and to reconcile it and take actions against the responsible officers.

xxxiii.	A sum of Rs.23,805,258 had been incurred by the respective contractor as demurrages during the year under review for consignment imported for the “Water for all project”. However, no provisions had been made in the books of accounts for the same at the end of the year under review.	All information on contingent events were called from the respective parties and that information were reported.	Ensure that all contingent liabilities are identified and reported before the financial statements are authorized to issue.
xxxiv.	As per the information furnished to audit, it was observed that the lands situated at Hambanthota region proposed to acquire for Kirama Katuwana Water Supply Project had been legally acquired by the Board during the year 2013 and 2014. However, the advance paid amounting to Rs.6,626,000 on such lands had been accounted in land advances as well as in fixed assets of the Board.	The project was commissioned only in Feb 2022. Therefore, it will be capitalized in due cause.	Ensure that the advances paid on acquired lands are capitalized.
xxxv.	As per random audit test check it was observed that stock items worth Rs.1,234,790 purchased during the year 2014,2017 and 2020 had not been taken to the Inventory Management System and the books of accounts in Rathnapura region. Hence the value of inventory at the end of the year had been understated by similar amount.	It has been now identified and action has been taken to include in the IMS.	Ensure the accuracy and completeness of balance of inventory in the financial statements.
xxxvi.	It was observed that building rent for three months period amounting to Rs.900,000 had been over recovered and exchange gain amounting to Rs. 3,029,984 had been accounted twice in relation to advances to contractors of Greater Colombo Water & Wastewater Management Improvement Programme (Project 01) during the year. Hence, balance of advances to contractors and work in progress at the end of the year had been overstated by Rs.2,129,984 and Rs.900,000 respectively while loss for the year in the Board financial statement had been understated by Rs.3,029,984. In addition to that advance recovered amounting to Rs.32,933,980 from the interim bills submitted by the contractor of Kandy City Waste Water Management Project during 3rd quarter of the year had been accounted twice in the books of accounts of the Board. Hence,	We have submitted the relevant Journal Entry to the Head Office in order to correct the House Rent Advance. Advance to contractor, correction had been made in Feb 2022.	Ensure the accuracy of balance in contractor advances and work in progress in the financial statements.

balance contractor advances had been understated and work in progress had been overstated by similar amount.

xxxvii.	In relation to Kandy City Waste Water Management Project retention kept by the Board out of bills submitted by the contractor, a sum of Rs. 52,336,400 for the third quarter of the year had been accounted twice. Hence the retention payable to contractors and work in progress at the end of the year under review had been overstated by similar amount.	The respective correction entry will be made in the year 2022.	Ensure the accuracy and completeness of balance in retention payable and work in progress in the financial statements.
xxxviii.	A motor with a cost of Rs.2,902,933 received to the Rathnapura regional warehouse on 13 February 2012 had been identified as an Inventory item even at the end of the year under review without taking any actions to capitalize	Until this item is being issued it will be an item in the stock.	Ensure that all the fixed assets of the Board had been properly accounted in the books of accounts.
xxxix.	Actions had not been taken to capitalize the value of three (03) lands, advances paid for acquisition, compensation and interest paid amounting to Rs.3,340,603 on nine (09) lands even though a considerable period lapsed after acquisition of respective lands.	At the end of the year, December income is estimated to expedite the process of preparing financial statements and it is disclosed in the financial statements. Accordingly, the actual income is not reported to that month.	Ensure that value of acquired lands had been capitalized.

1.5.4 Un-reconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
i. Differences of Rs.56,043,212 in trade debtors and Rs.127,184,503 in new connection debtors were observed between balances shown in the financial statements and the balances shown in the age analysis schedules submitted by the commercial division of the Board.	Instructions have been given to the regional accountants to reconcile the new connection ledger accounts.	Actions should be taken to reconcile trade and new connection debtors between two systems and ensure the accuracy of trade debtors in the financial statements.

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| ii. | An un-reconciled difference of Rs.3,939.7 million was observed between the value of metered sales, bulk sales and bowser supply shown in the reports of commercial section and the financial statements. | The un reconciled difference was observed between reports of commercial section and financial statements are already reconciled and passed correction JVs to Regional Accounts | Reconcile the balances in financial statements, commercial system and income declared in VAT returns. |
| iii. | A difference aggregating to Rs.12,316.62 million was observed in foreign grants of Dry Zone Urban Water and Sanitation Project, Jaffna Kilinochchi Waste Water Supply & Sanitation Project and Kaluganga Water Supply Expansion Project when compared financial statements of the Board with the individual financial statements of the respective projects. | Jaffna Kilinochchi Waste Water Supply & Sanitation Project
Annually the Project prepares and submits a detailed work in progress reconciliation. | Actions should be taken to reconcile the differences in foreign grants in Board financial statements and project financial statements and pass relevant journal entries whenever necessary. |
| iv. | As per the audit test check carried out, an aggregate difference of Rs.10,633.08 million was observed between the work- in- progress balance shown in the financial statements of the Board and the corresponding balances shown in the individual financial statements of six (06) foreign funded projects. Further, when analyzing the reconciliation prepared for Greater Colombo Water & Waste Water Management Improvement Investment Programme (Project i, ii & iii) –ADB and Greater Colombo Water & Waste Water Management Improvement Investment Programme AFD, it was observed in audit that provision for gratuity and payment made during the year for project staff amounting to Rs.15.48 million had not recorded in Board's financial statements. | The Greater Colombo Water and Waste Water Management Improvement Programme (Project i) ADB
In the year 2021 Project Financial Statements it was included under project 02 as Rs 7,777,092.28 for Gratuity Payable Account. The reason for the difference of WIP consists of VAT, ADB Interest & Commitment fee & USD Revaluation. | Actions should be taken to reconcile under mentioned differences accurately. |
| v. | As per the random audit test check, it was observed that an unidentified debit balances and credit balances amounting Rs.6,292,288 and Rs.361,841 respectively shown in the bank reconciliations from the year 2015 to 2020 in respect of five (05) banks accounts had not been cleared. | Out of debit balance of Rs.368,055 in the Peoples Bank Rathmalana A/C No 6149 Rs.183,242.86 has been rectified. Other balances will be cleared before 31.12.2022. | Unidentified debit and credit balances should be reconciled and cleared. |

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| vi | An unidentified credit balance of Rs.7,351,693 remained in cash imprest account in relation to Anuradhapura Water Supply Project (Phase 1) had not been cleared even by 31 December 2021. | The reconciliation is submitted | Ensure that unidentified balances had been cleared. |
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1.5.5 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
i. Based on the directions given by the Director General of Department of Public Enterprises by his letter of PE/WS/NWSDB/GEN/2015 dated 08 July 2015 and as per the Cabinet Decision taken on 04 February 2016, the outstanding loans balance amounting to Rs.100,263,323,220 had been transferred to Government Equity account with effect from year 2015 up to the end of the year. However, as per the records of the General Treasury an amount equivalent to Rs.75,388,884,922 had been identified as capital contribution to the Board. Hence, it was observed that an amount equivalent to Rs.24,874,438,298 which payable by the Board as foreign loans had been transferred to Government Equity without any approval at the end of the year under review	The debt was converted to equity due to a Policy decision taken by the Government. Accordingly, the debt balance remaining as at 31.12.2014 was converted to equity. Further the disbursements after 31.12.2014 of the respective loans were also converted as equity as per the subsequent Cabinet Paper approval.	Actions should be taken to reconcile the balance transferred as government equity with the treasury.
ii. Based on Cabinet Memorandum forwarded by the Minister of Finance, Economy and Policy on 18 June 2020 a Cabinet Decision had been granted on 24 June 2020 to obtained a loan amounting to Rs.30 billion from National Savings Bank in order to finance working capital requirement, project financing and financial commitments of the Board. However, contrary to the above decision Rs.32 billion had been obtained as loans by the Board from the National savings Bank in three occasions from 2019 to 2021. Further, a sum of Rs.2,181.17 million had been incurred as interest payment on that loan during the year under review and out of that interest an amount equivalent to Rs.2,080.58 million incurred as interest on debt services made out of that loan. Apart from that contrary to the objectives of the loan Rs.66.6 million had been incurred on “Water for all Project” out of loan proceeds during the year under review, even though Rs.17 billion had already been allocated for	In accordance with the Cabinet Decision Ref: AMP/20/0501/206/018 dated 19 March 2020, the NSB loan was provided to NWSDB for the purpose of working capital requirements including to finance the water supply projects and meet the other essential financial commitments of NWSDB. Accordingly, NWSDB settled the debt service payments due to Bank of Ceylon for the Gampaha Attanagalle WSP amounting to Rs.	Ensure that comply with the cabinet decision taken with regard to the utilization of funds received through loans.

the same in annual budget of the Board. However, as at the end of the year under review Rs.10.43 million had to be reimbursed by the Ministry of Water Supply for the amount incurred on Water for all Project out of loan proceeds of National savings Bank.

492,382,118 from the NSB loan.

- iii. No actions had been taken to obtain DI pipes and fittings valued at Rs.31.06 million given to an individual contractor of Water Supply and Sanitation project (monitored by the Ministry of Water Supply) without having proper approval as per the section 806 of financial regulations of Sri Lanka. A letter has been sent to settle the payment of on loan goods. Immediate actions should be taken to recover the goods or related value from the relevant parties.
- iv. Pipes and fittings valued at Rs.79,603,030 had been issued on 01 April 2021 out of the stocks of Regional Stores Rathnapura at the request made by the Project Director of Greater Rathnapura Water Supply Scheme on 20 January 2021. However, the approval of the Regional Manager had been obtained after 8 months period on 08 December 2021. This has been resolved. Ensure that relevant prior approvals had been obtained for all of the material transfers from the warehouses.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Other Debtors	102,867,223	Detailed schedules	(a,b,e,g,h,i,j,m,n,o) Detail schedules had been provided to the Auditor General's Department.	(i) Actions need to be taken to maintained detailed schedules of each debtors and creditors, local bank loans, With Holding Tax, short term deposits, contractor advances, security deposits etc. in a data base in order to take follow up actions.
(b) Other Creditor	342,938,996	Detailed Schedules		(ii) After a detailed tax computation expense for the year should be recognized in the statement of income.
(c) Non- moving & Slow-moving Stocks	1,315,539,477	Age analysis	(c) Due to the high volume of the inventory in the NWSDB this could not be provided.	(iii) Confirmations of bank loans should be taken prior to submitting financial statements to the audit.
(d) Tax expense	138,860,749	Detailed income tax computation for the year	(d) This is not an income tax instead it is an Economic Service Charge as per the Financial Statements.	(iv) All the schedules to
(e) Short Term Deposits in Other Institutions	12,779,730	Detailed schedules		
(f) HDFC investment for Housing Loans	434,368	Bank Confirmations	(f) A letter has been sent to HDFC for confirmation.	

(g)	Local Bank Loans	26,254,511	Bank Confirmations	<p>should be submitted to the audit with financial statements.</p> <p>(v) A list of assets taken over from the government department should be maintained.</p> <p>(vi) Age analysis of slow moving or non-moving items should be prepared in order to identify excess items or items to be disposed.</p> <p>(vii) Detailed schedules of each item in non-operating assets and liabilities should be maintained.</p>
(h)	With- Holding Tax	111,540,855	Detailed schedules and Certificates	
(i)	Security Deposit (Government quarters)	2,354,032	Detailed Schedules (Employee wise)	
(j)	Advances to Contractors-	5,772,482	Detailed Schedules	
(k)	Rehabilitation Tax	1,757,515	Detailed Tax Computation, Schedules	
(l)	Assets taken over from Government Department	185,480,387	Detailed assets list taken over.	
(m)	Treasury Grant	98,979,261,620	Detailed schedule with project related with the grants	
(n)	Capital Grants- Local Authorities	854,660,910	Detailed schedule with project related with the grants	
(o)	Foreign Capital Grants	7,347,045,563	Detailed schedule with project related with the grants	
(p)	Abatement Creditors	2,321,570	Detailed Schedules	
(q)	Non-operating Liabilities			
	Trade Creditors Unclaimed	4,131,522	Detailed Schedules	
	Salaries & Payroll Clearing	20,639,944	Detailed Schedules	
(r)	Non operating Assets	-		

Other Debtors	3,743,920	Detailed Schedules
Advances	15,274,131	Detailed Schedules

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
i. Trade debtors, new connection debtors, sewerage debtors and other debtors aggregating to Rs.1,992.88 million had remained over two years without being recovered. Out of above trade debtors 59 percent represents in Colombo, Kelaniya, Kotte and Hambanthota regions. Even though new connection debtors are to be recovered from 3 installments, Rs.7,359,256 had remained more than 3 years period without being recovered.	Due to Covid – 19 Pandemic the disconnection programme could not be executed due to travel restrictions. Action has been now taken to recover the arrears.	Take sufficient and necessary actions to recover due amount from the debtors without delay.
ii. A sum of Rs.244.63 million had remained outstanding from 1975 trade debtors relating to 20 consumer categories, whose bill values are over Rs.50,000 and consecutively not paid for 365 days as at 30 November 2021. Out of above balance Rs.4.57 million represents 8 (eight) minister’s office quarters.	Due to Covid – 19 Pandemic the disconnection programme could not be executed due to travel restrictions. Action has been now taken to recover the arrears.	Take sufficient and necessary actions to recover due amount from long outstanding trade debtors or expedite the disconnection programme wherever possible.
iii. A sum of Rs.6,996,050 in respect of 42 water connections given to ministers quarters had remained without being recovered as at the end of the year under review whose bill values are exceeds Rs. 5,000 and consecutively not paid for 365 days. Out of those connections, 33 connections with a bill value of Rs.2,277,723 were inactive and not paid more than three years.	Action has been taken to recover the relevant ministries and also the action to write off the arrears of the demised ministers.	Actions should be taken to expedite the recovery process for outstanding from ministers quarters.
iv. An outstanding balance of Rs.1,765,352 in respect of two illegal connections of Galle Urban Council for the consumption of water for 19 years had not been recovered even by the end of the year under review. Further, as per random test check audit carried out, relating to three illegal connections of individual households in Galle region, it was observed that a sum	Currently the recovery of the loss of revenue is being followed up by the Galle region.	Immediate action should be taken to recover the losses incurred due to illegal water connections.

of Rs. 921,097 had not been recovered even by the end of the year under review.

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| v. | A sum of Rs.28,519,949 due from Colombo Municipal Council for the services provided by the Board, had not been recovered for more than 5 years period even by the end of the year under review. | Action has been taken to recover the deposits from the respective institutions. | Immediate action should be taken to recover the dues from Colombo Municipal Council. |
| vi. | Outstanding disconnected debtors as at 31 December 2021 was Rs.1,334,585,928. Out of that, debtors amounting to Rs.461,330,874 which equivalent to 85 percent had remained outstanding over two years without being recovered. | Legal actions have been already taken to recover the outstanding arrears. | Actions need to be taken to expedite the recovery process. |
| vii. | Direct confirmation had been called in respect of randomly selected 134 trade debtors with outstanding balance is over Rs.100,000 from commercial sector and public sector institutions amounting to Rs.142,277,148 and the debtors amounting to Rs.24,009,302 are agreed with the confirmations and debtors amounting to Rs.26,656,777 are not agreed with the confirmed balances. Confirmations had not been received in respect of debtors amounting to Rs.91,611,069 up to 30 June 2022. | The perpetual issuing system is used to record the water debtors in monthly basis. | Take actions to review the accuracy of the existing customer data base. |
| viii. | Short term deposits aggregating to Rs.53,408,746 deposited in external institutions including Road Development Authority, Colombo Municipal Council, Provincial Road Development Authority and Beruwala Urban Council had remained outstanding over three years without being recovered. Further, an advance kept at line ministry amounting to Rs.4,378,829 had remained outstanding over nine years without being recovered. However, the recoverability of this advance is in doubt since it had not been shown in the statement of liabilities of the Line Ministry for the year under review. | Once the laying of pipes has been fully completed and the roads are fully reinstated action will be taken to obtain the deposit. | Take immediate actions to review the existence of deposits and advances and the recovery process should be expedited. |
| ix. | No remarkable actions had been taken to recover refundable deposits made at Road Development Authority two years ago amounting to Rs.7,068,327 by the Regional Support Centre (North West), even though the projects relating to the refundable deposits had already been completed | Action is being in progress to recover the deposits from the respective institutions. | Take immediate actions should be taken to recover the refundable deposits made at Road Development Authority for |

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| | | already completed projects. |
| x. | A sum of Rs.245,893,002 had remained as With Holding Tax receivables for more than three years period without taking any actions to get them refund. However, the existence of the balance could not be verified since the detailed scheduled amounting to Rs.111,540,855 had not been provided for audit and the balance was not confirmed through the Department of Inland Revenue. | NWSDB informed the due WHT Receivable amount to the Department of Inland Revenue during the submission of Income Tax Return. Immediate actions should be taken to verify the tax credit relevant to With Holding takes with the Department of Inland Revenue and get them refund wherever possible. |
| xi. | Out of distress loans of Rs.2,509,328,912 given to employees to be recovered within 5 years and 6 years, a loan balance of Rs.13,773,945 given to 187 employees had not been recovered with in due dates. Similarly, festival advance of Rs.599,250 given to 123 employees during the period from 2011 to 2020 had not been recovered even by the end of the year under review. | Money of some of those who have been formally retired and deceased has been sorted out from the sinking fund or from the relevant employees and the amount due from those who have left the post and those who have been suspended and resigned will be recovered. And it will be checked the rest of the employees and submit a full report in the future. Immediate actions should be taken to recover the loans and advances given to employees which had remained without recovered with in due dates. |
| xii. | A sum of Rs. 1,417,916 had been incurred by North Central region of the Board for the projects implemented by Ministry of Rural & Divisional Drinking water supply Project Development without obtaining required funds before commencement of the project. However, actions had not been taken to reimburse the cost incurred even by the end of the year under review. | There are instances where the ministry request RSCs to carry out varies development activities in line with their action plans without transferring the fund at the initial stage of the project for which bills are submitted to the ministry once work is completed. Immediate actions should be taken to reimbursed the expenditure incurred by the Board from the relevant Ministries. |

1.6.2 Payables

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| i. | Balance of trade creditors amounting to Rs.43,267,366 in Kandy, Kandy North, Kandy South and Dehiwala had remained | Reasons will be identified in detail and actions will be taken to correct the errors. | Actions need to be taken to ensure the accuracy of the |

- in books of accounts for more than 5 years period even at the end of the year without taking actions to settle. However, as per information received to audit it was revealed that all of the above creditors had been settled their dues even though it had not been correctly accounted in the books of accounts.
- creditor's data base and settle long outstanding creditors.
- ii. A sum of Rs.1,963,560 and Rs.666,375 kept by contractors as retentions in respect of six (06) completed projects and four (04) terminated projects respectively in Regional Support Centre (East), Regional Support Centre (Western South), Regional Support Centre (North Western), Regional Support Centre (Sabaragamuwa), Ruhunupura WSP and Sithulpuwa Water Scheme had not been released to relevant parties or take a proper action even by the end of the year under review.
- Based on their request these retentions will be released when the defect liability period is over.
- Actions need to be taken to release the contractor's retentions to relevant parties or take proper actions.
- iii. Refundable tender deposits amounting to Rs.4,466,358 had remained over three years without being released to relevant parties. Further, an abnormal debit balance of Rs.188,808 remained in refundable tender deposit of Rathnapura region due to repayment of deposit already transferred to income without taking actions to settle them as per section 571(2) of Financial Regulation of Sri Lanka. However, actions had not been taken to settle the abnormal debit balance even by the end of the year.
- Upon completion the NWSDDB will release the retentions to the respective contractors.
- Actions need to be taken to release the refundable tender deposits to relevant parties and investigate the abnormal debit balances.
- iv. National Building Tax amounting to Rs.321,662,628 charged by the contractors in respect of five (05) foreign funded projects had not been paid by the Board from the year 2018 even by the end of the year under review.
- NWSDDB has requested money from General Treasury to settle this amount but so far funds have not been received.
- Ensure that all the statutory payments had been paid to the Department of Inland Revenue without delay.

1.6.3 Advance

Audit Issue	Management Comment	Recommendation
i. A sum of Rs.103,259,692 and Rs.28,969,283 paid as deposits and advance for the acquisition of lands in Regional Support Centre (Central) and Hambanthota regions respectively had remained in books of account for more than five years without taking actions to investigated and recovered. Further, in respect of land advances paid in relation to Regional Support Center (Central), the responsible officers were unable to provide information to audit as to whether respective lands are acquired or not.	Status of the acquisition process will be identified in corporation with head office and actions will be taken to capitalized the land which were completed the acquisition process.	Actions should be taken to investigate the long outstanding balances in land advances and settle them immediately.
ii. Loans and advances given to former employees amounting to Rs.17,535,788 had remained in accounts for more than eight years period without taking proper actions to recover. However, as per test check done by audit it was observed that more than 90 percent of the above employees who have obtained loans and advances had been given retirement without recovering the due amounts.	Finance department, industrial relations department, human resources department, and information technology department should look into this issue together and find a solution to the problem as soon as possible.	The process to recover the outstanding from former employees should be expedited.
iii. No legal actions had been taken to recover the advances given to three contractors for the terminated projects in Regional Support Center (Central) during the year 2008 aggregating to Rs.9,278,335 even by 30 April 2022.	A letter was sent to the Legal Officer of NWSDB requesting the status of the legal actions of these advances.	Legal actions should be taken without delay with regard to long outstanding advances.
iv. No legal actions had been taken to recover the advance given to contractors during 2010-2016 for terminated project aggregating to Rs.41.11 million in relation to head office even by the end of the year under review.	Corrective action will be taken after finding reasons for remaining the balances for a long period of time.	-Do-
v. Out of advances granted to suppliers in purchasing, an aggregate value of Rs. 210,863 in Kandy South region and Regional Support Centre (North Central) had remained in the books of accounts without being recovered for more than one year.	This will be corrected in the year 2022.	Action should be taken to recover the supplier advances as soon as possible.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
<p>Board had not recognized relationship with related parties that affect assessment of Board's operations in terms of the section 8 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24). Further, it had not been introduced a methodology to identify and disclose related party transactions in the financial statements or its draft annual report even by the end of the year under review. Hence the nature and amount of related party transactions could not be ascertained during the audit.</p>	<p>As per the new guide line Public Enterprises Department in Nov 2021 the declaration of the directors have been made and necessary disclosure will be made in the annual report.</p>	<p>Immediate actions should be taken to identify related parties and related party transactions and disclosed them in the financial statements or its draft annual report in terms of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24).</p>

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation	
(a) General Manager's Circular			
i. Admin/12/2015 of 12 August 2015	<p>Within three months after the disconnection legal actions should be taken to recover outstanding debtors. However, legal actions had not been taken to recover the outstanding debtors aggregating to Rs.431.5 million in respect of 3,846 disconnected debtors whose bill value over Rs.50,000 as at 31 December 2021. Further, no actions had been taken to disconnect the water supply from main line for 12 government quarters with outstanding bill value of Rs.439,371 in Ratnapura District even though reconnection had not been obtained after lapse of 3 to 11 years from the disconnection.</p>	<p>An outstanding balance on domestic consumers has been collected by disconnection programs.</p>	<p>Ensure strict compliance with General Manager's Circulars.</p>

- ii. Admin/09/2018 of 26 September 2018 & Section 8.1.1 and 8.2.2 of Code of Board Quarters Monthly rent equivalent to the market rent and 12.5 percent of surcharge from salary shall be charged from employees who occupy official quarters more than 5 years. However, as per random audit test check a surcharge (excluding market rent) as at the end of the year amounting to Rs.29,996,237 from sixty six (66) employees in six Regional Support Centres and head office had not been recovered even as at end of February 2022 although they have occupied quarters over 5 years. Action will be taken to recover the surcharge from those who have exceeded the approved period of stay in the official quarters after obtaining the relevant approval. -Do-
- iii. Section 11.2 of Code of Board Quarters Six official quarters had been allocated to six employees in Regional Support Centre (Western Production) whose permanent addresses are located less than 25 kilometers from the place of work to official quarters. Further an amount equivalent to Rs.2,997,000 had been paid from February 2019 to November 2021 out of funds of Ambathale Energy Savings Project to six employees whose permanent addresses are located less than 25 kilometers from the place work. A preliminary investigation has been started in this regard. It will report on the ninety matters revealed in the investigation report and take further action. -Do-
- iv. Section 2.1 and 2.3 of Admin 16/2020 of 02 September 2020 Seventeen (17) officers attached to Western Production Regional Support Centre, two hundred three (203) officers attached to Ampara region and one hundred thirty eight (138) officers attached to Akkareipattu region renders their service in the same place for period ranging from 06 to 27 years, 05 to 38 years and 5 to 16 years respectively Those who have been working in the same post for more than 05 years are given the opportunity for transfers as per their wish. Due to the country's situation and fuel shortage the implementation of annual transfers has become very difficult. -Do-

- v. Section 12.2 of Code of office Quarters and Section 3 of Board Circular No. Ad18/2015 dated 30 November 2015
- Monthly bill value with a surcharge of 10 percent from salary shall be charged from employees whose water bills are outstanding. However, no action had been taken to collect the outstanding water bill charges aggregating to Rs.1,710,387 with surcharge from 201 connections with outstanding value exceeds Rs.1000 for over three months period. In addition to a sum of Rs.64,922 to be recovered from six official quarters already demolished in Rathnapura region had remained without recovered even by the end of January 2022. Further no any charges on consumption of water had been charged from 9 officers in Regional Support Centre (Western Production) from the occupied date to the end of the year under review and hence Board had to incur a loss approximately Rs.255,600.
- The personal files of the persons concerned will be examined and action will be taken to recover these loans in coordination with the Human Resources Division and the Finance Division and progress will be reported in the future.
- Do-
- (b) Management Services Circular No. 30 of 22 September 2006 and Section 3.2(i) of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021
- Approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained even by the end of March 2022.
- By now, the matters presented by trade unions have been included and the final form has been prepared and the approval of the Board of Directors has been obtained by the Ministry on 06.06.2022.
- Ensure strict compliance with Management Service Circulars guidelines of the Department of Public Enterprises.
- (c) Public Enterprise Department Circular No.01/2020 of 27 January 2020

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| i. | Section 1.2 | Two vehicles had been allocated for Chairman during the year under review. | As per the vehicle policy, 02 no of vehicle have been allocated to chairmen and vice chairman. | Ensure strict compliance with Public Enterprise Department Circulars and vehicle policy should be prepared in align with the public enterprise circulars. |
| ii. | Section 1.4 | Two vehicles had been allocated for Vice Chairman during the year under review. | | |
| (d) | Section 4.3 of Guidance on Corporate Governance for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 | A risk committee had not been appointed even by the end of March 2022 to assess the risks that could have an impact on the operations of the Board, quantify the impact of such risk both financial and non-financial. | A Risk Committee appointed on 09.02.2022 consisting of 3 non-executive Directors of Board. A draft TOR has been submitted for perusal of the Chairman of Risk Committee. | Ensure strict compliance with Public Enterprise Guidelines. |
| (e) | Section 2.3.2 of Management Audit Circular No.01/2019 of 05 March 2019 | A full time Project Director had not been appointed to Matara Stage (iv) Water Supply Project from September 2021 even up to 31 July 2022. | Due to the retirement of the Project Director covering was given to the Additional General Manager South as the project was in final stage. | Ensure strict compliance with Management Audit Circulars. |
| (f) | Section 3.5 of the Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 | During the year under review, the Board had paid a sum of Rs.28.73 million as salaries and allowances of twenty one (21) employees who had been released to the Line Ministry by 31 December 2021. Accordingly, Ministry of Water Supply should reimburse Rs.216.12 million to the Board for the employees released from December 2015 to 31 December 2021. | The demands have also been taken into consideration and several employees of the Board have been assigned to the Ministry. The ministry informed that since no provision has been made for these employees, their salaries cannot be reimbursed. | Ensure strict compliance with Guidelines of Department of Public Enterprises. |

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| (g) | Section 06 of the Asset Management Circular No. 01/2017 dated 28 June 2017 of Ministry of Finance and Mass Media | Additions and disposal of fixed assets had not been reported to Comptroller General's office except vehicles even by 30 March 2022 after the year 2016. | To gather information it needs more time. | Ensure strict compliance with Asset Management circulars of Ministry of Finance and Mass Media. |
| (h) | Establishment Code of Democratic Socialist Republic of Sri Lanka | | | |
| (i) | Section 5 of paragraph XIX | As per random audit test check executed in relation to six Regional Support Centers and Head office it was observed that a monthly rent ranging from Rs.85 to Rs.4,000 only is being charged and no rent had been charged from 20 employees in Regional Support Centers East, Western North, Western Central, Western South and North (Vaunia) even though the official quarter's committee had decided a monthly rent for them. | The approval of the new methodology for the collection of the rent of the quarters has been received from the Quarters Committee and it is to be implemented after the approval of the Board of Directors for the Code of Conduct for Quarters. | Ensure strict compliance with the provisions of Establishment Code when charging rent on quarters. |
| (ii) | Section 1.8,4.6 and 7.4 of paragraph VII | A sum aggregating to Rs.968,517 which consist Rs.328,276, Rs.442,815 and Rs.197,426 respectively in respect of seventeen (17) employees who left their services (vacated of post), resigned and dismiss had been provided in the books of accounts for over three years period although they are not entitled for their personnel emoluments. | Root courses to this issue have already been identified and corrective actions are being taken to rectify this issue. | Ensure strict compliance with the provisions of Establishment Code . |
| (i) | Financial Regulations of Democratic Socialist Republic of Sri Lanka | | | |
| (i) | Section 113 | An outstanding balance of water bills amounting to Rs.75,868,821 | Subsequently submitted for Treasury approval. | Ensure that comply with the provisions |

receivable from domestic consumers in relation to Medirigiriya Water Supply Scheme, Colombo urban Council, Colombo City South, Colombo City North (Mattakkuliya), Manager Kotte (Battaramulla), Dehiwala Manager office, Panadura (Horana) Manager office, ministers quarters had been written off during the year under review based only on Board decision without obtaining treasury approval.

in the Financial Regulations.

<p>(j) Observation (03) of the Minister of Finance bearing the letter No CF17/0453/714/006 dated 13 March 2017 to the Cabinet memorandum No. 17/0453/714/008 dated 27 February 2017</p>	<p>Contrary to the Cabinet Decision a sum of Rs.29,912,098 had been incurred out of funds received from treasury to finance interest on loan obtained from National Savings Bank in respect of Rs.492,381,118 interest payment to the Gampaha, Attanagalle and Minuwangoda integrated project for loan obtained from Bank of Ceylon during the year under review.</p>	<p>In accordance with the Cabinet Decision Ref: AMP/20/0501/206/018 dated 19 March the NSB loan was provided to NWSDB for the purpose of working capital requirements including to finance the water supply projects and meet the other essential financial commitments of NWSDB. Accordingly, NWSDB settled the debt service payments due to Bank of Ceylon for the Gampaha Attanagalle WSP.</p>	<p>Ensure that guidance of Ministry of finance are followed.</p>
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1.9 Cash Management

Audit Issue	Management Comment	Recommendation
<p>Cash frauds amounting to Rs.246.64 million committed at Trincomalee, Kelaniya and Ampara regions during the year 1999 to 2006 had not recovered even as at 31 December 2021. However, in relation to Trincomalee Region Rs.24.15 million had only been recorded as other debtors out of cash fraud of Rs.171.9 million.</p>	<p>In relation to the financial frauds that occurred in Trincomalee, Kelaniya and Ampara offices further inquiries have been made to the Attorney General's Department about it and it is to be dealt with according to the</p>	<p>Ensure that Internal control procedures are in place to prevent from under mentioned situations in</p>

Further, another Cash fraud amounting to Rs.272,735 committed at Bandarawela Region during the year 2001 had not recovered from responsible persons even as at 31 December 2021.

Attorney General's instructions. future. And in relation to the case that has been filed against the former Deputy General Manager (Finance) actions will be taken according to the judgments.

1.10 Non-compliance with Tax Regulations

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Amended Value Added Tax Act of No.14 Of 2002			
i. Section 26 (i)	Value Added Tax amounting to Rs.2,081,107 relating to sewerage income (value of supply) of Rs.26,123,533 for the month of January 2021 had not been accounted during January and hence not paid before the end of February 2021	Correction would be done at the time of the cash received.	Ensure strict compliance with the provisions in Value Added Tax Act.
ii. Section 21(i)	VAT returns for all of the four quarters of the year 2021 had been submitted to the Department of Inland Revenue with a delay ranging from three to four months.	This was due to insufficient time to finalize the return, limited staff, delay in receiving of VAT schedules by the regions etc.	-Do-
(b) Section 1.4 of Department of Inland Revenue Circular No.CGIR/2019/3V (INS & Cir) of 09 July 2019.	As per audit test check carried out, Value Added Tax amounting to Rs.2,465,952 had been paid during the year under review to 15 (fifteen) VAT inactive suppliers in fifty two occasions.	We have recovered Rs. 2,112,048.74 Out of total inactive suppliers. Actions have been taken to recover the	Need to recover the VAT paid to VAT inactive suppliers and ensure strict compliance with the provisions in Department of Inland Revenue

			balance in the future.	Circulars in making payments in future.
(c)	Extraordinary Gazette Notification No.2151/52 dated November 29, 2019 published under section 2A of the Value Added Tax Act No.14 of 2002	A lesser percent instead of 8 percent had been charged on metered sales from 8 regions during January 2021 of domestic, government quarters, commercial institutions and government institutions. Hence Rs.2,088,094 lower than statutory percentage of VAT had been declared and paid by the Board. Further, Value Added Tax on metered sales amounting to Rs.10,268,679 in relation to Gampaha, Colombo and Ampara region during first two quarters of the year 2021 had not been declared and paid by the Board even by the end of 31 July 2021.	This is a system error and it will be corrected in the year 2022.	Ensure strict compliance with the provisions in Value Added Tax Act.
(d)	Section 01 of the Circular No.CGIR/2019/3V/(INS & CIR) dated 09 July 2019 issued by the Commissioner General Of Inland Revenue	Action had not been taken to verify whether the suppliers to whom Value Added Taxes are paid, had registered with the Inland Revenue Department and possess a valid Tax Identification Number before making payments.	It has been instructed all Accountants check the VAT Registration Certificate of suppliers before paying VAT.	Ensure strict compliance with the provisions in Department of Inland Revenue Circulars.
(e)	Section 14 of the guideline on Simplified Value Added Tax System of No. SEC 2012/04	Simplified Value Added Tax (SVAT) vouchers amounting to Rs.3,531,056 and Rs.3,248,019 in relation to first and second quarters respectively for the year 2021 had not been collected even by 30 March 2022.	It has not received all vouchers in the audited period. We obtained the details of the vouchers through the RAMIS system before submitting the VAT return to the Department of Inland Revenue.	Ensure strict compliance with the guideline on Simplified Value Added Tax System.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre – tax net loss of Rs.2,996,686,249 and the corresponding net profit in the preceding year amounted to Rs.642,781,124 (re-stated). Therefore, a massive deterioration of profit by Rs.3,639,467,373 of the financial result was observed. Decrease in gross profit ratio by 6 percent as result of comparative decreasing in metered sales, increase in personnel cost associated with the production of treated water, increase in other cost associated with the production, increase in administrative expenses and finance cost as compared with the previous year were the main reasons attributed for this deterioration in the financial results.

2.2 Trend Analysis of major Income and Expenditure items

Description	Variance Amount Increase/ (Decrease) (Rs.Mn)	Variance %	Reason for the Variance
Metered Sales	1,174	4	Increase of new connection given, increase in domestic consumption, increase in bowser supply etc
Cost Of Sales	2,408	14	Increase in personnel cost, pumping cost, chemical cost, repair maintenance, rent & rates etc.
Other operating income & gains	314	21	Increase in Sewerage, Ground Water Income, Miscellaneous Income including Surcharge, Penalties etc.
Administrative Expenses	1,622	10	Increase in Staff cost, Repair, maintenance and establishment expenses
Finance cost	209	38	Increase in loan disbursements during the year as compared with previous year, installments falling due during the year

2.3 Ratio Analysis

According to the information made available, some of the important ratios of the Board for the year under review and the preceding year are as follows.

Year	2021	2020
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Gross Profit Margin	33.77	39.65
Net Profit Margin	(10.83)	1.9
Current Ratio (No. of time)	1.39	1.84
Liquidity Ratio (No. of times)	1.22	1.63
Total Asset Turn over (No. of times)	0.04	0.04

According to the above information, key financial ratios of the Board for the year under review had shown an unfavorable condition (except total assets turnover ratio) as compared with the preceding year. The net profit margin of 1.9 percent of the preceding year had drastically decreased to a net loss margin of 10.83 percent for the year under review. Current ratio and the liquidity ratio had been also deteriorated by 0.45 and 0.41 times respectively, as a result of increase in loan payable during next year, increase in contractor retention and accrued expenses as compared with the preceding year. Further, total outstanding loan balances of the Board had been increased from 201.09 billion to 240 billion or by 19 percent as compared with the previous year mainly due to increase in foreign loan exposure during the year under review. Hence, the debt to equity (gearing) ratio had been increased from 53 percent to 58 percent or by 5 percent as compared with the preceding year.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
i. An amount equivalent to Rs.162,900 had been incurred as default interest due to delay in repayment of installment by the Board in respect of loan obtained for Matara Stage (IV) Water Supply Project. Further, an amount equivalent to Rs.1,815,460 had been incurred as default interest due to delay in payment of electricity bill of Western Production Regional Support Centre for the period of April 2020 to October 2021.	The default interest of amount Rs.162,900 has not been included in the debt service notifications forwarded by NDB. The electricity payment was not possible to make due to Covid 19 pandemic.	Take necessary actions to repay debt service payments and other payments on time in order to prevent from incurring default interest.
ii. A sum of Rs. 1,432,839 had been deprived to the Board due to charging of lower rates than the stipulated rates for official quarters occupied by 11 employees in Regional Support Centre (Western Production).	Following the recommendations of the Sub-Committee and the approval of the Board of Directors for the official housing code, the rents will be implemented at all Regional Support Centers.	Actions should be taken to recover the loss from the responsible official due to charging of lower rates than the stipulated rates for official quarters rent.

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| iii. | As per random test check audit carried out in relation to 7112 connections given under Western Production Region it was observed that November 2021 month reading is lower than previous month reading and a hence a decrease in water billing of 2,435,948 units or an average loss of Rs.29,231,376 was observed. | Detail check on this is being carried out. However, this will be corrected in the subsequent month. | Ensure that consumers are billed accurately for their water consumption. |
| iv. | As per random test check audit carried out it was observed that 41,546 number of duplicate bills had been issued for 31 regions including Maharagama, Kotte, Rathnapura, Panadura–Horana etc. during 01 January 2021 to 30 November 2021. And for those connections amount equivalent to Rs.69,351,972 had remained outstanding without being recovered as at 30 November 2021. Further out of above, in relation to Maharagama, Kotte, Kelaniya, Hambanthota, Kegalle, Galle and Anuradhapura regions over 2000 duplicate bills for each region had been issued. | These errors were corrected with assistance of IT division. | Action should be taken to avoid the issuance of duplicate bills in the commercial system. |
| v. | Due to failure of termination the service by the management of the Board for offences committed during meter reading by a former meter reader (employee no.2031868) who was in his probation period, a compensation amounting to Rs.559,746 had been incurred by the Board for a litigation filed by that meter reader. Further, no action had been taken to recover the losses of forged meter reading made by him even by the end of the year under review. | Department heads have not recommended the confirmation of his position, so it is not possible to confirm the position on the scheduled date. Although his probation period should have been extended informing that, no such letter has been issued according to the personal file. Further, the officers who were in charge of this file at that time have now retired. | Ensure that proper monitoring mechanism is in place to ensure that employees are confirmed or terminated after the probation period in order to prevent from loss to the Board in future. |
| vi. | A sum of Rs.2,050,962 had been paid as interest on compensation for the period from 2012 to 2016 to the owner of the land acquired for the Rehabilitation of Water Treatment Plant in Katugasthota due to | Noted | Ensure that required funds are available for payment for compensation before acquiring lands in |

delay in settling compensation.

order to prevent the payment of interest on compensation.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
i. As per the consumer charter of the Board, the first bill should be issued to the consumer within 30 days of the date of new connection. However, a considerable delay ranging from 37 days to 329 days were observed in delivering of 1st bill in Colombo South, Maharagama, Kesbewa, Kaluthara and Matara regions in 149 occasions as at 30 November 2021.	This was due to the prevailed Covid restrictions in the country, but now steps have been taken to provide the 1st bill to the consumer without any unusual delay.	Ensure that comply with provisions in the consumer charter of the Board.
ii. Considerable delays ranging from 57 to 186 days was observed between the dates of connections given and the date of issuing 1st bill to customers relating to Kaluthara Manager Office.	The COMS billing system has been developed to overcome this delay.	-Do-
iii. As per the consumer charter of the Board, the new connection should be given within 1-4 days of signing agreement and making relevant payment. However, as per random audit test check, it was observed that action had not been taken to provide the connection to the respective consumers in Pothuwil and Paragahkele Water Supply Schemes in 6 occasions even after lapse of period ranging from 24 days to 59 as at 28 January 2022 and after lapse of 01 to 7 months in Karthiw and Akkareipaththu Water Supply Schemes (OIC offices) in 26 occasions as at 28 January 2022.	With regard to resolve this matter an instruction letter has been issued to minimize the delay.	-Do-
iv. Board had not properly evaluated the suitability of the lands proposed to acquire for the construction activities through a technical committee appointed and hence observed that two lands for the construction of reservoir in Labugama and water tank for Dankotuwa Water Supply Scheme had been given up after incurring a sum of Rs.41,920.	Noted.	Suitability of the lands proposed to acquire should be properly evaluated through a technical committee at the planning stage.

- v. As per the random audit conducted, it was observed that due to failure in monitoring and take follow up actions regarding the process of land acquisition, considerable delays were observed in acquisition of three lands or obtaining the certificate of transfers even after lapse of a period ranging from 11 to 17 years.
- LA/1784
The acquisition process of the land is yet to be completed.
- LAJ656
It has been used to build Water Tank under Padiyatalawa Water Supply Scheme. The acquisition process of this land is completed. The Divisional Secretary (Padiyatalawa) has already issued the relevant transfer certificate.
- LA/1366
The acquisition process of the land has nearly been completed.
- vi. The Board had acquired a land in 1981 in Kaluthara to construct a warehouse and employee quarters and paid Rs.531,000 to the governor in Kaluthara District in 1991 for the payment of compensation to the owners and Rs.106,980 had been paid to the valuation department. However, the land had already been occupied by some families illegally due to failure of the management of the Board to get the precautionary action to secure the land. However, no any active intervention had been observed by the two legal officers already employed by the Board for 41 years secure the ownership of the land. Instead of that an external lawyer to handle the matter had been hired by incurring Rs.3,472,875 at the end of the year under review. However, the Board had failed to evicted the existing residents and ensure the ownership of the land even by the end of July 2022. Further another land acquired for extension of reservoir at Dehiwala had also been occupied by eight illegal residents at the end of the year under review due to failure of management to take actions to secure the land upon the receipt of legal possession of the land on 1981.
- Kaluthra land**
External lawyer was hired by the Human Resource Division and this case is pending in court.
- Dehiwala land**
Writ of execution in progressing. Order has been given by the Mount Lavina Magistrate Court to evacuate encroachers.
- Ensure that proper monitoring mechanism is in place and follow up actions are taken continuously regarding acquisition of lands.
- Ensure that ownership of Board's assets is secured.

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| vii. | The Board had paid an advance of Rs.1,675,000 to Land Reform Commission in 2013 without obtaining any valuation from the Department of Valuation in order to transfer the land owned by them to construct ground water reservoir and the access road for Balangoda Water supply scheme. However, Board had failed to obtain a certificate of transfer for ownership of the land or free hold deed from the land reform commission even by the end of the year under review. Further, one of the external parties had filed a court case against the Board regarding the ownership of the land. However, an external lawyer had been hired to represent the Board at the court out of the funds of Kolonna Balangoda Water Supply Project even though the Board had employed two legal officers to resolve the legal matters of the Board. | The part of the Purchase price has been paid and issuance of Title Deed is pending. The Board has requested LRC several times to issue the Deed quickly. | Ensure that ownership of Board's assets is secured by a proper deed or certificate of transfer. |
| viii. | The Board had paid Rs.21.45 million or 30 percent of the valuation as advance on April 2014 to one of the land owners to purchase a land to construct a wastewater treatment plant under Galle Area Wastewater Disposal Project on the recommendation of senior legal officer of the Board. Subsequently, a court case had been filed to recover the advance paid, due to dispute regarding the ownership of the land occurred. Further, it was observed that the consent of the land owner to sell the land had been given prior to date of the respective deeds. In addition to that it was observed that the land had been occupied some families even by the end of the year under review. However, Board had failed to recover advance paid and penalty thereon from the land owner and take any action against the responsible officers of the Board even as at 31 July 2022. | A case filed at the court to recover the advance payment and case is pending in court. | Ensure that ownership of Board's assets is secured and take actions against the responsible officers for recommending lands. |
| ix. | Out of total production 25.82 per cent is regarded as non-revenue water at the year under review even though the Board had planned to reduce it to 23.09 percent at the end of the year. Further as compared with the proceeding year the percentage of non-revenue water had been increased by 1.19 percent. The value of non-revenue water had been brought to the accounts as normal cost instead of being | The Covid -19 Pandemic situation within last two years affected the progress. Further, NRW activities in RSC's could not be carried out as planned, due to shortages of the budget allocations for NRW | Action should be taken to pay more attention on reduction of non-revenue Water and allocate sufficient budget on that. |

separately accounted, though it makes a significant loss to the Board due to leakage, unlawful connections, free supply and administrative inefficiencies etc. Further, the non-revenue water in Colombo city had recorded a highest percentage of 34.75 even at the end of the year, though three large scale foreign funded projects with a cost of Rs.59,767 million are implementing with the objective of reduction of non -revenue water in the city of Colombo. A part from the Colombo city another four regions such as Dehiwala, Kandy North, Kandy South, Galle had recorded a non -revenue water percentage exceeding 30 percent while seven regions such as Kotte, Kelaniya Kalutara, Kegalle, Matara, Bandarawela and Monaragala had recorded a non- revenue water percentage exceeding 25 percent but lower than 30 percent showing no remarkable efforts had been taken to reduce the percentage of non -revenue water during the year under review.

reduction provided to each region from the annual operational budget of NWSDB as a result of Covid 19-situation prevailed during the said period.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
i. As per the financial statements, the stocks in transit (local purchase) and imported stock in transit as at 31 December 2021 was Rs.61,113,682 and Rs. 2,224,233,337 respectively. Out of that stocks amounting to Rs.454,921,632 had remained over one years without being investigated.	In the NWSDB there are no any trading stocks. The stock maintained relates to consumables and they are utilized depending on the requirement.	Actions need to be taken to investigate the long outstanding stocks in transit balances and ensure the accuracy of recognition in stock in transit in the financial statements.

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| ii. | An abnormal debit balance in trade creditors amounting to Rs.149,109,651 in Bandarawela region, Monaragala,Matara and Galle regions had been remained in accounts without taking actions to investigate and settled. Out of above balance a sum of Rs. 17,482,910 had remained in Bandarawela region even from the year 2015 and 2016 up to the end of the year under review. | <p>Bandarawela
We are in the process of clearing those balances.</p> <p>Galle Region
Some Accounting entries were delayed regarding trade creditors due to Covid 19 pandemic situation
However now those entries has been corrected & it is not an abnormal debit balance in trade creditors in Galle Region as at 30.06.2022.</p> | Actions need to be taken to investigate the long outstanding abnormal debit balances in trade creditors. |
| iii. | An abnormal credit balance of Rs.5,545,062 remained in new connection debtors relating to Panadura Region had not been investigated and settled even by the end of the year under review. | Action will be taken to solve this issue with the assistance from the commercial division in the year 2022. | Actions need to be taken to investigate the long outstanding abnormal credit balance in new connection debtors. |
| iv. | Abnormal credit balance of Rs.858,379 had remained in cash in transit account of Regional Support Centre (UVA) without being investigated and settled even at the end of the year | A non-payment voucher for this value was prepared in January 2022. There is currently no balance in this account. | Actions need to be taken to investigate the abnormal credit balance in cash in transit account. |
| v. | An abnormal credit balance of Rs. 1,202,772 was observed in contractor advances in respect of eight projects (00/0/07/242/0 and 00/0/05/242/0) at the end of the year under review without being investigated. | This will be corrected in the year 2022. | Actions need to be taken to investigate the long outstanding abnormal credit balances in contractor advances . |
| vi. | A sum of Rs.480,000 had been released as fuel imprest during the year under review to eight (08) vehicles which were not included in the list of vehicles of Ampara Manager Office. | No comments had been given. | Ensure that fuel imprests are issued only to own vehicles. |

3.4 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
Out of total allocation of Rs.983.5million provided for Development of Rural and Divisional Drinking Water Supply projects Rs.441.97 million had only been utilized at the end of the year under review. However, out of funds received amounting to Rs.227.0 million and Rs.79.39 million for Prevention of Water Borne Diseases in the CKD affected areas and for Augmentation of Trincomalee Water Supply Scheme respectively, an amount equivalent to Rs.222.9 million and Rs.75.86 million had only been utilized at the end of the year under review.	It was unable to meet the expected fund utilization due to lack of labour at sites, delay in supplying materials etc. as a result of the Covid-19 global pandemic situation.	Ensure that funds received for the projects are fully utilized.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
i. In order to provide water supply for Ampara, Monaragala and Batticloa regions, Ampara Water Supply Project (Phase III) had been commenced with an estimated cost of Rs.20,825 million on November 2010 and scheduled to be completed December 2015. Under the component (ii) of the project, it had been planned to construct six elevated water tanks and award the contracts on January and March 2013 with the schedule completion date of August 2014 and March 2015. However, due to poor performance of the contractor, it had been terminated on 24 August 2020. Accordingly partly constructed six water towers incurring Rs.30,351,710 and DI pipes and fittings worth of Rs.15,790,210 had remained idle even by the end of the February 2022. However, new contracts to complete the balance works had not been awarded even at the end of the year under review. Hence, it had been unable to achieve the objectives of the project on time.	These six sites were noticed poor performance for long time and contractor failed to achieve their target within the given period and hence the contract had been terminated. The balance works of above water towers construction, called tenders as new contract on 10 th March 2021 and waiting for awarding at MPC, due to current prevailing economic situation of the country. Further due to direct pumping, O&M facing several difficulties such as frequent bursting, high	Immediate actions should be taken to utilize partially completed water towers and DI pipes and fittings order to achieve project's objectives effectively.

- NRW, etc due to high pump pressure. Hence, the completion of 06 no. of water towers are important.
- ii. Thirteen (13) office quarters in Damana Water Supply Scheme, Irakkaman Water Supply Scheme, Sagamma Water Supply Scheme and Mandana Water Supply Scheme constructed at a cost of Rs.33,148,739 had remained idle at the end of the year under review. Further, out of 91 office quarters related to Akkareipattu and Ampara Manager Offices and Konduwattuwana Water Supply Scheme had not been occupied by any person and hence remained idle at the date of physical inspection of 28 January 2022.
- When requests for the quarters are received they will allocated.
- Actions should be taken to fully utilize the officers' quarters.
- iii. All the constructions relating to Iginiyagala and Wadinagala Water Supply scheme and Damana Water Supply Scheme valued at Rs. Rs.5,585,337 and Rs.84,235,632 respectively had remained idled at the end of the year under review due to changing the distribution lines to Paragahakele Water Supply Scheme and Hingurana Water Supply Scheme.
- Noted
- Actions should be taken to find alternatives use of idling constructions of abundant water supply schemes.
- iv. After the grace period for loan granted for Gampaha, attanagalla & Minuwangoda Water Supply project by the China Development Bank, five loan installments amounting to USD 37.5 million had been paid at the end of the year under review. However, out of loan disbursed by the China Development Bank, a sum of USD 58,267,381.31 equivalent to Rs.11,828.23 million or 30 percent of loan had been retained in Escrow account without utilizing for project activities by the end of the year under review.
- CDB Bank did not agree to restructure the loan agreement but undisbursed balance is required for continuation of the awarded contracts, therefore deposited in ESCROW account.
- Actions should be taken to complete the project before agreed period of the contract and the financing agreements in order to achieve the expected outcomes.
- v. Without preparing an engineering estimate the generator with a capacity of 800 KVA remained at Akkareipattu Officer in charge office had been handed over to the its supplier on 08 July 2019 for the estimated repair cost of Rs.10,466,352. Subsequently, based on decision taken by the Departmental Procurement Committee the contract
- No comments had been given.
- Actions should be taken to utilize the idle assets effectively.

to repair had been re-awarded to another bidder for a contract sum of Rs.9,960,575 on 16 August 2021. Later the contract price of rewarded contract had been amended for Rs.12,625,465 or by 27 percent of the original contract price. However, no proper actions had been taken by the management to get the generator repaired even after 2 and 1/2 years of idling as at the end of the January 2022 even though a sum of Rs.195,975 had been incurred for transportation and testing undertaken by the original supplier.

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| vi. | An excavator machine procured during the year 2018 incurring Rs. 22.3 million out of funds of Colombo District East Water Supply Project for the usage of Regional Support Center (Western Production). However, it had only been utilized for 60.5 hours even as at December 2021 and had not been utilized from 28 April 2021 for the operational activities of Regional Support Centre (Western Production) | No comments had been given. | -Do- |
| vii. | A boowble camera system valued at Rs.10 million remained at Pothuwil Officer in Charge office and sent to Akkareipattu manager office on 03 July 2017. However, it had not been repaired even by the end of the January 2022. | The action is in progress to repair it. | -Do- |
| viii. | Sludge stores area and sludge safety tank valued at Rs.4 million had remained idle in Pothuwil officer in charge office from the year 2007. | No comments had been given. | -Do- |
| ix. | A water treatment unit (deposited filter media) valued at Rs.8 million, received as USAID and remained at Pothuwil Ulla Water Plant had been damaged due to constipation. Further out of 5600 Cum3 capacity of water treatment plant, only 1300 cum3 or 23 percent is utilized even at the end of January 2022. | No comments had been given. | -Do- |
| x. | Non-moving stocks and slow-moving stocks valued at Rs.632,408,899 and Rs.683,130,578 respectively had remained in warehouses of the | Even though items were categorized as non-moving stocks | Actions need to be taken to place orders for inventory items after |

Board at the end of the year and it represents 6 and 8 per cent of the total stocks of the Board as at that date. and slow-moving stocks, those will be used for the NWSDB activities. considering their stock control levels in future to avoid Non-moving stocks and slow-moving stocks.

3.6 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
<p>i. With respect to sixteen foreign funded projects and six local banks funded projects a considerable delay ranging from 184 days to 1779 days was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding, etc. even after granting extensions ranging from 01 to 09 occasions.</p>	<p>These delays were due to farmers protests regarding the water source, Covid-19 pandemic, constraints imposed by government on constructions, Credit rating down grade and suspension of IPC payments, Land acquisition issues, Utility Shifting, delay in obtaining relevant approvals from the external institutions, financial crisis of the contractors, adverse weather condition, shortage of financial allocations, delays in procurement (delay in contract awarding), current economic crisis, import restrictions, delay in appointing subcontractors etc.</p>	<ul style="list-style-type: none"> • Actions should be taken to avoid project delays and thereby extensions to contractors and in the instance of an extension is given to a contractor, ensure the deduction of delay damages as per the provisions in the contract agreement. • Close monitoring of the project by the Board's staff during implementation.

- ii. The contract for rehabilitation of Water Treatment Plant in Rathnapura Hospital had been awarded with a delay of 3 years on 17 October 2018, even though the required funds had been disbursed by the Ministry of Health during 2015 and 2016. As per the contract agreement, the contract had to be completed on 28 February 2019. Nevertheless, due to poor contractor performances, the contract had not been completed even by the end of November 2021. Further the contractor had failed to commence the works until the validity period of advance bond expired. No comments had been given. -Do-
- iii. As per the information submitted to audit regarding four rechargeable projects with a cost of Rs. 4,528,678 implemented under Irakkaman, Akkareipaththu and Pothuwil Water Supply Schemes a considerable delay ranging from 1 year to 5 years was observed in completing projects. No comments had been given. -Do-
- iv. Contract for extension of Saidamarudu Officer Incharge Office and Assistant General Manger office (East) had been awarded with an aggregate contract value of Rs.15.85 million with a scheduled completion date of December 2021 and November 2021 respectively. However, as per physical audit conducted on 25 January 2021, it was observed that the respective contracts had not been completed and no any physical progress had been obtained in respect of 08 contract activities valued at Rs.1,531,942 and 26 contract activities valued at Rs.11,146,120 respectively. No comments had been given. -Do-
- v. The contract for renovation of Sagamma Ground water reservoir had been awarded at a contract sum of Rs.7.04 million on 14 July 2021 with a schedule completion period of 63 days. However, the contractor had failed to commence the project works even after lapse of 38 days as at 03 September 2021 even though the contract activities should be commenced within 14 days of the letter of acceptance. Further, the contractor had failed to submit the performance bond within 14 days of the letter of acceptance instead it had been submitted after lapse of three months from the schedule completion period. Further the contractor had failed to complete the contract activities even by the end of January 2022 and the physical progress had confined only to 7 percent as at 28 January 2022. Noted. -Do-

3.7 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>i. An increase of 18.3 percent had been observed between two engineer estimates prepared in two occasions for same bill of quantity items for the contract of Renovation of Ground Reservoir in Kaluthara Alwis Place. Hence the reliability of preparation of engineering estimates is in doubts. Further it had been taken nearly one year to award the contract due to inefficiency in procurement process. In addition to that due to failure of identification of scope of the contract properly additional payments of Rs. 3,736,057 had been made for variation orders. Further, the project had been awarded on 15 September 2020 and schedule to be completed within three months. However, two extensions had been given by the Board due to failure of completing the contract as expected even by 20 October 2021. As a result out of 14.8 million advances given by the Board an amount equivalent to Rs.3.8 million had only been recovered even by 31 July 2021.</p>	<p>Rates were revised considering the difficulties of this specific work process; The decision to revisit the Engineer's estimate has been received on 28 Jan 2020 and the contract was awarded on 15 September 2020. Further the COVID 19 also affected the procurement delay. This is a 6,800m³ capacity reservoir with 2 compartments and performing a detail investigation is very difficult during within a limited time frame. With practical constraints, unforeseen defects can appear during the cleaning for renovation with high pressure water jets.</p>	<ul style="list-style-type: none"> • Actions should be taken to expedite the procurement process. • Before awarding the contract, the scope of the works should be identified through a detailed investigation. • More reliable estimates should be prepared before publishing bid notices.
<p>ii. As per section 2.3.1 of the procurement guideline Board had to satisfy whether it has completed land acquisition and resolved compensation, re-settlement issues, including relocation of utilities and such other matters which are necessary for the uninterrupted implementation of the project. However, it was observed that acquisition of proposed lands for resettlements and construction of water towers for Gampaha Attanagalla and Minuwangoda Integrated Water Supply scheme had not been completed even after lapse of period of the 2nd extension granted</p>	<p>Fund commitment for Land Acquisition is finally approved on Feb 2020. It is still continue with delay due to grievance of the affected families, delay of releasing Golden Share Rights as well as COVID 19 and may further delayed due to current rapid escalation of construction materials .</p>	<p>Should adhere with the provisions of government procurement guideline.</p>
<p>iii. Contrary to the section 6.3.3(b) of the Procurement Guideline, 48 days period had been spent to open the bids relating to the contract for extension of Karthivu Officer In charge Office and contrary to the section 7.8.6 of the Procurement Guideline the contract had not been awarded to the substantially responsive bidder.</p>	<p>No comments had been given.</p>	<p>-Do-</p>

- iv. Contrary to section 5.4.4 of procurement guideline, a sum of Rs.1,417,515 had been paid to suppliers directly during 01 January 2021 to 30 June 2021 in Galle Manager Office without enter into a valid written agreement. And out of above an amount equivalent to Rs.223,000 released in 6 occasions had not been settled by the respective supplier even by 30 June 2021.
- The above figure has been settled later due to a delay caused by the imposition of movement restrictions and reduced reporting to the office due to the recent Covid pandemic situation. The advances are now fully settled.
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3.8 Defects in Contract Administration

Audit Issue

Management Comment

Recommendation

3.8.1 Kalu Ganga Water Supply Expansion Project (1)

The Project commenced its activities in December 2020 and scheduled to be completed by April 2025. The objective of the Project is to provide safe water and increase water supply efficiency in the southern area of the Western Province by expanding Kalu Ganga water supply facilities and restructuring water distribution networks, thereby contributing to the improvement of the living conditions of its people. The Project consists of ten contract packages for construction activities and one consultancy service package. Out of ten contracts, detailed designing and construction works of the five contracts in Project-1 and detailed designing works only in respect of the balance five contract packages in Project -2 are planned to be completed under the Project. However, consultancy contract had only been awarded and commenced the detailed designing and assistance in procurement process. Hence, there was no any physical progress had shown of the Project up to 31 December 2021.

Sri Lanka's government has adopted an interim debt policy during this period. Therefore, it prevented receipt of donor disbursement to this project. Hence, the progress of this project was halted. However, project works will commence in the year 2023.

Actions need to be taken to expedite the project's works so as to complete the project with in contract period.

3.8.2 Kelani Right Water Supply Project (Phase ii)

The following observations are made.

- i. The project commenced its activities on 23 January 2017 with a scheduled completion date of 23 January 2020. However it had been extended until 07 November 2020. Further under the improvement of quality of water in Kelaniya River, dumping the treated effluent of Biyagama Board of Investment Zone downstream of intake was one of the main objectives of the Project. However it had been failed to complete the work even by the end of January 2022.

The river outfall location has to be changed twice due to public objections and shifted further downstream of the river (up to Talwatta canal outfall) and finalized per the decisions taken at the District Development committed in Biyagama PS.

Actions need to be taken to expedite the project's works so as to complete the project with in contract period.

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| ii. | Due to negligence in preparing engineering estimates by the Board and implementation of the project without having proper planning and monitoring, an additional expense of Rs.80,848,773 had been incurred up to end of the year under review out of local funds and a sum of Rs.15,803,377 had been incurred under a variation order for re -storing pipes and fittings from the temporary stores. | Since NWSDB did not have proper storing facilities, it was decided to utilize local funds of the project to construct the warehouses. Yet by the time of arrival of pipes, RSC W-N couldn't complete the construction of warehouses due to procurement delays. Therefore, the received pipe containers have been stored in pipes containers have been shifted to the new locations and relevant transporting/ unloading cost was paid to the contractor. | Ensure that adequate space to store pipes and fittings are available before making the procurement. |
| iii. | It was observed that a sum of Rs.27,054,000 had been incurred during the year under review on procurement of equipment for Regional support centers of the Board out of project savings contrary to the project objectives. | The above amount was utilized from the available funds of project to make payment for purchasing of essential equipment to facilitate the Operations and Maintenance works of new connections. | Ensure that project's funds are not utilized for extraneous activities. |

3.8.3 Sanitation and Hygiene Initiative for Towns Project

The project had been commenced in order to extend waste water collection and treatment systems and improve access to sanitation services for 73,000 people in Negambo municipal council area, clarify and enhance the water and sanitation sector frame work, facilitate access to the service for disadvantaged households through the development of pro-poor policies designed to fight poverty and preserve the coastal and marine eco-systems and maintain bio-diversity. The Project commenced its activities on 01

June 2016 and scheduled to be completed by 30 June 2022. The following observations are made in this regard.

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| <p>i. Policy and institutional enhancement consultancy contract with a cost of Rs.54,667,356 had submitted reports namely Deliverable 3, Deliverable 4 and Deliverable 5 for develop the Accounting system of the NWSDB and Deliverable 7 and Deliverable 8 for develop the sewerage management skills of the NWSDB in 2020. However, recommendation include in those reports had not implemented by the NWSDB even as at 25 May 2022.</p> | <p>Deliverable 3,4,5 PMU coordinated with the relevant section of NWSDB and directed for implementation. Deliverables 7 & 8 outcomes of the deliverables were used & incorporated and implemented SMSDC packages. Accordingly, outputs of deliverables 7,8 are used for capacity development of the Water Reclamation Division.</p> | <p>Ensure that output of the consultancy contracts are used effectively.</p> |
| <p>ii. The Project had approved variation order no. 03 for recruit human resource consultant for NWSDB by using saving from reducing project scope of Policy and institutional enhancement consultancy contract.</p> | <p>Variation order was paid only one month with Variation order committee approval.</p> | <p>Ensure that project's funds are fully utilized for project's activities.</p> |

3.8.4 Kandy City Wastewater Management Project

The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2022. The following observations are made in this regard.

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| <p>i. It was observed that the design of the work under the contract of the design and construction of trunk sewer, branch sewer and man hole pump station had not been prepared properly by the Project. As a result, the contractor had submitted variation order at a cost of Rs. 1,750 million and the Project had paid Rs.52.12 million from that as an additional design cost during the year under review.</p> | <p>Construction suffered delays and additional costs. However, the contractor claimed around Rs. Mn. 5,056 and with careful evaluation, it was reduced to Rs. Mn. 1,750.</p> | <p>Ensure that projects are well designed prior to implement it and responsible officers had been charged for the negligence of their duties.</p> |
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| ii. | The Project had employed existing Project staff and incurred Rs.13.02 million under the contract of construction property connection for the construction of a waste water treatment plant in Peradeniya University which is not include in the Project scope. Further, it had incurred Rs.2.6 million for opening ceremony of Kandy waste water treatment plant which had been held in online during the year under review. | Since the University of Peradeniya project is to be connected to KCWMP treatment system and considering the project experience, this project was allowed to manage by same project team to better manage the technical and commercial interests. | Ensure that project's funds are not utilized for extraneous activities. |
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3.8.5 Anamaduwa Water Supply project

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| i. | The Project commenced its activities on February 2017 and scheduled to be completed by February 2020. Subsequently, the period of the Project had been extended up to 31 December 2022 due to poor performance of the contractor. Accordingly the government had incurred Rs. 16.91 million as commitment fee to the lending agency. | Project has been extended due to delay of finalizing the pipe material and colour of HDPE, delay of clearing the pipe shipment, change of intake location, delay of reimbursement of paid VAT, NBT, damages and Covid pandemic situation etc. | Actions need to be taken to expedite the project's works so as to complete the project with in contract period in order to avoid commitment charges imposed by lending agency. |
| ii. | Contrary to the section 19.4 of the FIDIC guideline a sum of Euro 330,183.98 and Rs.3,010,929 had been paid as additional financial charges (cost incurred on extension of bonds) by the Board, which should have been incurred by the contractor even for the period of time extensions granted based on the poor performance of the contractor. | Approval was granted to pay only the cost incurred on the extension of bonds (performance & advance bond) and Insurances, through a V.O. | Ensure that comply with the provisions in the FIDIC guideline. |
| iii. | As per the section 8.5.4 of the contract agreement the contractor is required to provide 6 number of two wheel double cabs to the project. However, the contractor had provided only three numbers of double cabs at the end of the project. Hence the sum of Rs.14.99 million exceeding the provided amount of Euro 3,365.70 in the bill of quantity had been incurred on hiring of vehicles to the project which had become uneconomical. | Approval has been received to import the vehicle in 2019 and the Contractor imported the 03 nos. vehicles at end of the year 2020 and handed over to the project at Dec 2022 with a huge delay of the clearing process due to restriction of | Ensure that the contractor comply with the conditions of the contract agreement. |

importation. Hence, the vehicles had to be hired until purchasing Double Cabs for the project works

3.8.6 Matara Stage IV – Water Supply Project

The following observations are made.

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| <p>i. The Project had been commenced in order to provide drinking water for 321,954 populations expected to be in 2030. It had been commenced its activities on 11 October 2017 and schedule to be completed on 10 October 2020. However, due to the reasons of poor performance of the contractor, delay in approving drawings and delay in acquisition of lands etc. three time extensions had been given in three occasions up to 30 September 2022. Nevertheless, the physical progress of the project remained only at 92 percent even by the end of July 2022.</p> | <p>Due to the reasons of legal action was taken for Land owner of WTP, poor performance of the contractor, delay in approving drawings and delay in acquisition of lands etc. Three-time extension had been given in three occasions up to 30th September 2022.</p> | <ul style="list-style-type: none"> • Actions need to be taken to expedite the project's works so as to complete the project with in contract period. • Ensure all of the lands were acquired and all drawings were approved before commencement of the project. |
| <p>ii. It was observed that due to failures in conducting feasibility study, during the construction of salinity barrier the paddy fields in the areas had been severely affected due to flood and hence the farmers protested against the construction. To resolve the matter the board had to pay a compensation of Rs.7,223,924.60 on 10 March 2022 to the District Secretariat –Matara and another Rs.697,967 has to be paid by the board at the end of July 2022.</p> | <p>Due to unexpected weather pattern during the construction of salinity barrier the paddy fields in the areas had been severely affected due to flood and hence the farmers protested against the construction. To resolve the matter the board had to pay the compensations to them.</p> | <p>Ensure that feasibility studies and environment assessment are done properly in order to identify future possible environmental disasters.</p> |
| <p>iii. As per the section 10.F of the contract document in order to enforce the contract, the contractor should be allowed to enter the construction site and as per the section 2.3.1 of the procurement guideline board should satisfy whether it has completed land acquisition and resolved compensation, re-settlement issues, including relocation of utilities and such other matters which are necessary for the uninterrupted implementation of the project. Further as per the</p> | <p>Reasonable delays were observed with regard to allowing permission to contractor to enter some of the construction premises including until finalization of legal action in WTP Land and completion of</p> | <p>Ensure all of the lands were acquired and all drawings were approved before commencement of the project.</p> |

section 11.7 of the FIDIC guideline contractor should be allowed to enter to the construction site after obtaining performance guarantee. However, reasonable delays were observed with regard to allowing permission to contractor to enter some of the construction premises including Malimbada and several other lands by the board. Further approval of the Provincial Road Development Authority had not been taken for laying activities of part of the area of Karagoda, Uyangoda even by the end of July 2022.

acquisition process of Malimbada reservoir site and several other lands by the board.

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| iv. | As per the section 14.7(b) of the FIDIC guideline, the contractor should be paid within 56 days of submitting interim payment certificate to the board. However, a considerable delay of 182 days was observed in settling IPC 14 to the contractor as at 31 March 2022. Hence the possibility of delay charges that may be claimed by the contractor in terms of the provisions of contract agreement cannot be ruled out in audit. | This was due to issue of foreign currency in National Development Bank. | Ensure that comply with the provisions of the FIDIC guideline. |
| v. | As per the initial plan and the price schedule, it had been planned to lay a distribution line of 200 Km. However it had been reduced to 105 Km or by 50 percent as per the extension given on 01 July 2020 and hence it is in doubt whether the objectives of the project can be achieved by covering the whole area as initially planned. Nevertheless, only 58.3 kilometers or 83 percent of transmission line and 101 Km or 96 percent of distribution line had only been laid even as at 31 July 2022 after expiry of second extension granted. Hence due to delay in laying of pipe and fittings the ultimate objective of providing drinking water after the scheduled completion period may not be achieved even if all of other constructions are completed. | The distribution scope had been reduced due to the design changes from original Scope of contract by the Letter of Engineer of the Contract. | Ensure continuous monitoring during the project implementation. |
| vi. | Actions had not been taken to commence the construction of official quarters in premises Miriswatta Pump House even by the end of the year under review as per the contract agreement. | This was due to design changes of two numbers of OIC office building as per the request of DGM (Southern) and contractual issue related to design changes is not solved even by the end | Actions need to be taken to expedite the project's works so as to complete the project with in contract period. |

of the year under review as per the contract agreement.

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| vii. | As per the section 8.3.1.3 of the bidding documents, the contractor is required to provide 11 vehicles to the project. However only 04 vehicles had been provided even by the end of May 2022. | Out of 07 double cabs 03 Double cabs were transferred to Head office Finance Section, Planning and Design Section and RSC (Southern). | Ensure that the contractor comply with the conditions of the contract agreement. |
| viii. | Actions had not been taken to settle road supervision fee of Rs.43,172,397 in relation to Matara Stage (iv) Project payable to Road Development Authority even from the year 2019 up to the end of the year under review. | No comments had been given. | Actions should be taken to settle supervision fee payable to Road Development Authority. |

3.8.7 Greater Colombo Water and Waste water Management Investment Programme –Project 01,02 and 03

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| i. | Under the above program, in order to achieve the basic objectives of improving the urban environment and the quality of life of the people living in Colombo, bringing down the non-revenue water ratio of 49 percent in Colombo since 2012 to 18 percent by 2020, provision of continuous 24 hours quality water supply in Colombo, strengthening the institution's activities including provisioning of a sustainable wastewater service were among the main activities. Under that, in order to reduce the ratio of non-revenue water which was 49 percent in Colombo city by 2012 to 18 percent by 2020, three large-scale projects as projects I, II and III respectively had been planned to commence in 2013, 2014 & 2016 and scheduled to be completed by 2016, 2019 and 2020 under the financial contribution of the Asian Development Bank. However due to failure of completing within due dates time extensions had been given up to 30 th June 2021 and 24 October 2022 respectively. | Due to unavoidable circumstances, the contract period had to extend considering increased pipe laying length from the original scope, difficulties with obtaining excavation permission from other authorities, adverse weather, Easter attack and COVID 19 pandemic etc. | <ul style="list-style-type: none"> • Actions need to be taken to expedite the project's works so as to complete the project with in contract period in order to achieve the project objective of reduction of Non-Revenue Water. • Actions should be taken to charge the delay damages for poorly performed contractors as per the conditions of the contract instead of granting time extensions. |
| ii. | The total investment value under this program is Rs. 26,422 million equivalents 201.95 USD million. After spending 08 years on 31 December 2021, 161 USD | The overall progress of Project 1 is 96.52 percent and project 02 is | -Do- |

million or 80 of the total investment had been utilized. 72.90 percent as at 31 December 2021. However, no single project had been fully completed and handed over with the non-revenue water rate reduced to 18 percent.

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| iii. | Further, It had been mainly targeted to identify 77 DMA units in Colombo city, rehabilitate the systems and hand over to the operation and maintenance unit of the board after reducing the percentage of non-revenue water to 18 percent as above. | Another 14 Nos. were ready to be handed over to O & M division. | Action should be taken to complete the District Meter Reading Areas as planned. |
| iv. | Further, the loan utilization of Project No. 1 was completed by 31 January 2022 and the loan period for the remaining projects under this program is scheduled to be completed by 24 October 2022. Accordingly, with 10 months to complete this program, according to the reports submitted by the board, it was observed that the non-revenue water percentage in Colombo city was high as 34.75 percent as of 31 December 2021. Further as per the calculations made by audit if the board was able to reduce the percentage of non-revenue water by 1 percent in the city of Colombo it would have been able to increase its revenue by Rs.40.03 million. However, due to failure of doing so board had to incur an operating expense of Rs.37.43 million. Accordingly due to inability of the management to reduce the percentage of Non-Revenue water to the expected level of 18 percent, a loss of revenue of Rs.670.60 million had been observed. | NRW percentage for the period of 16 November to 16 December 2021 is 30.6 percent. | Actions need to be taken to expedite the project's works so as to complete the project with in contract period in order to achieve the project objective of reduction of Non-Revenue Water. |
| v. | Even though the benefits of this project failed to be fully achieved during this project period, the interest expense and commitment fee value borne by the government are Rs.1,124.39 million and Rs. 203.97 million respectively. A part from that, although none of the projects had been fully completed, the government has also started repayment of the loan installments of the above projects 1, 2 and 3. | Due to the main reasons stated in (i), the rate of progress was mainly affected. However, the NRW value in the Colombo City is reached to the 22% at now. | Actions need to be taken to expedite the project's works so as to complete the project with in target dates in order to prevent commitment fee. |

3.8.8 Ambathale Energy Saving Project

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| i. | The primary objective of this project is to replace old pumps with low efficiency and replace them with new pumps to reduce the average monthly energy cost of more than Rs.67 million in Ambathale water treatment | Project delayed due to shifting of the reservoir to Ambatale Water Treatment Plant | Actions need to be taken to expedite the project's works so as to complete the |
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plants and to minimize friction cost by replacing the small transmission pipe system between 70 and 100 years old by laying high capacity pipes. The investment cost of the project is Rs.9,100 million equal to USD 70 million and the project work was initially planned to start in September 2014 and be completed in 4 ½ years by June 2019. However, due to failure of completion project by that date, the period had been extended for a period equal to the initial completion period till June 2023.

Premises, inability to project with in open LC by the contract period in contractor due to order to achieve the shortage of foreign project objectives. currency in the country, public protests against the construction of Kinda Canal bridge, temporarily stoppage of fund disbursement, restrictions by RDA, COVID 19 pandemic etc.

ii. When considering the progress of each year, a less progress as 1.5 percent in 2015, 1.82 percent in 2016, 4.38 percent in 2017, 3.14 percent in 2018, 12.24 percent in 2019, 15.38 percent in 2020 and 18.57 percent in 2021 had been achieved. Accordingly, after the lapse of 07 years the cumulative progress achieved by 31 December 2021 was only 56.83 percent. As no major contracts had been completed by 31 December 2021, it is in doubt whether the remaining 43.17 percent progress will be able to achieve in 1 ½ years by June 2023. Accordingly, USD 5.04 million had been incurred exceeding provision of USD 4.19 million made for project management and operational expenses due to implementing the project activities for 7 years beyond the initial planning period as at 31 December 2021.

The project was delayed due to various reasons. Accordingly, project period was extended & as a result, project management & operational cost had increased more than the originally estimated.

Actions need to be taken to expedite the project's works so as to complete the project with in target dates in order to prevent from additional project management and operational expenses.

iii. Apart from this, as a result of this poor performance of the project, Rs. 358.71 million equivalent to USD 2.19 million had been incurred by the government only as commitment charges for the underutilization of the loan which had been confined only to 15 percent as at 31 December 2021.

Even though the project was unable to disburse the funds to the Contractors as per the planned forecast due to reasons given (i) above, the government had to pay the commitment charges according to the conditions of loan agreement. However, the project has taken maximum effort to mitigate the effect of this

Actions need to be taken to expedite the project's works so as to complete the project with in target dates in order to prevent commitment fee.

additional work within the provisions available in the Contract.

- iv. Although the cost of project consultancy and management had exceeded the estimated value, it was problematic for the audit whether the project consultancy service and project management had been carried out in a way that had a positive effect on the performance of the project.
- The consultancy service contract was extended from the savings of the non-mobilized key experts.
- Ensure that consultancy contracts have positive impact on the performance of the project.

3.8.9 Anuradhapura North Water Supply project Phase -01

Anuradhapura North water supply project phase – 01 covers Medawachchiya and Rabawa divisional secretarial areas. The objective of the project is to provide safe drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North area thereby contributing to improving hygienic status and health condition due to people in area depend with unsafe contaminated ground water which causes dental and skeletal fluorosis as well one of the main hazardous factors for spreading chronic kidney diseases and higher nos of patients recorded in these areas. Hence government has given priority to implement these water supply projects to provide safe drinking water. Accordingly, it was observed that the water supply projects in this area need to be completed within scheduled period for the people to get relief without delay. However, project commenced its activities in February 2013 and it was scheduled to be completed within 5 years by February 2018. Subsequently the period of the project had been extended 9 years up to 05 July 2022 due to delay of the contract awarding and poor performance of the contractors. Nevertheless, only 97.46 percent of physical progress was observed as at 30 June 2022 and it had not been completed even up to 31 July 2022 due to poor progress of the main pipe laying contract of Lot-B. As a result of that, a sum of Rs. 45.68 million had been paid as commitment charges due to underutilization of agreed loan amount and capital repayment amounting to Rs.994.38 million had been paid up to 31 December 2021 before completion of the

LOT B will be completed on 31st of October 2022. In addition to the awarding delay, Payment issues, Covid 19, Easter Sunday attack impacted to delay on project completion. Further, the loan disbursement period has been extended up to July 2022 without changing repayment terms by JICA.

- Actions should be taken to expedite the procurement process in order to complete the projects within scheduled completion period in order to achieve the project objectives.
- Ensure that funds have been fully utilized for project activities during the contract period.

project and fully utilization of the agreed loan amount as well as without achieving the government and public objectives from the Project.

3.8.10 Water For All Project

As per the National Policy the Vistas of Prosperity of the President, Water For All programme had been implemented to increase the coverage of clean accessible water for all. Accordingly, Board had established a separate unit with an “Overall Project Director” and a separate cadre. Some of them are newly recruited on contract basis and some of them had been release from the existing staff of the board. As per the audit test check conducted by the end of July 2022, following observations are made.

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| i | A retired Additional General Manager of the board had been appointed as the Project Director of this project at his retirement for a one year contract period commencing from 27 September 2021 based only on a board decision taken on 13 September 2021 without having any approval from the Department of Management Service in terms of the Management Service Department Circular of 02/2020 dated 26 October 2020. Further it had been decided at the above board meeting to pay personnel emoluments equivalent to monthly salary and other allowances of the last position held by him even exceeding the personnel emoluments entitled by a Project Director as specified in the section 3.2 of Management Service Circular No. 01/2019 dated 15 March 2019 without any approval of the Department of the Management Services and Salary and Cadre Commission of Sri Lanka. Accordingly an amount equivalent to Rs.4,395,955 had been paid as salaries and wages for such an unproved post as at the end of June 2022. However, it was revealed in audit that the Overall Project Director of this project was not supposed to execute duties and responsibilities assigned to other similar nature project directors of the board and acting only as coordinator. Hence the value addition of the above officer to the expenditure incurred by the board is in contentious nature in audit. | For this project, Board does not established Special Project Monitoring unit to reduce the cost of construction supervision, but recruited retired Additional General Manager who is involving formulation of the project. He has a responsibility get complete design and Tender Documents, complete the procurement process, obtain requested funds, from treasury, required coordination with all relevant stakeholders while monitoring, controlling and administrating of the project. Since the value of the project is around 3,060 it is highly suitable to recruit person who having highly Additional General | Ensure that prior approval from the Department of Management Services had been obtained for recruitments. |
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Manager experience and Board decided to recruit him for the above overall project director post to same salary.

ii. As per the information obtained by audit, it was observed that six officers of the existing permanent cadre of the board had been attached to this project and another seven officers of the board had been acting as covering up basis. However, in addition to that contrary to the section 02(ii) of the Management Service Circular No.02/2020 dated 26 October 2020 issued by the Secretary to the Treasury in line with recruiting/filling vacancies for approved carder, 176 employed had been recruited to this project without obtaining approval of the Department of Management Service and a sum of Rs.211.88 million had been paid by board as salaries and allowances up to 31 July 2022.

No comments had been -Do- given.

iii. Due to failure of the top management of the board to make sure that the funds are available to release the HDPE, DI and PVC pipes imported to the port or delay the shipments after negotiating with the suppliers, board had to incur a sum of Rs.33.3 million as demurrage charges at the end of June 2022 without obtaining treasury approval. Apart from that action had not been taken by the top management to release another 207 containers that have already reached to the port even by the end of the July 2022. According to the information received to the audit it was observed that a sum of Rs. 813.12 million (approximately) has to be paid as demurrages at the end of July 2022 in order to get them released. However, it was observed that no any DI pipes so imported had been used for laying activities even by the end of July 2022 and out of HDPE pipes issued to warehouses under ten (10) Regional support Centers, more than 40 percent had remained without utilizing for laying activities even by the end of July 2022. Similarly 173087 meters of HDPE pipes of 12 categories of dia meters delivered to six Regional support Centers had not been utilized even by the end of July 2022.

Treasury confirmed the cash flow for the water for all project. But due to current financial and economic crisis of the country, the Treasury was not able to provide funded from February 2022. Therefore, Board could not able to clear the pipe from port due to non-availability of local and foreign currency in the country. So, Board had to pay demurrages. As the pipe supply are got delayed, and due to Treasury has not provided the funds as they agreed, Board could not able to pay advance payment and pay progressive bills to the pipe laying contractors, Ensure availability of funds before entering into procurements contracts.

Board unable to implement pipe laying contracts as planned.

- iv. Further as per random test a check audit, it was observed that most of the laying contracts awarded under this scheme had not commences even by the end of June 2022 and the progress of already awarded contracts are not in satisfactory level.
 - No comments had been given.
 - Ensure continuous monitoring during project implementation.
 - Actions need to be taken to expedite the project's works so as to complete the project within contract period in order to achieve the project objectives.

3.9 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
<p>Contrary to the provisions in Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and Section 3.5 of the Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021, twenty one (21) employees had been released to the Line Ministry by 31 December 2021 and the Board had incurred a sum of Rs. 28.73 million on behalf of them during the year. Accordingly, a sum of Rs. 216.12 million is to be reimbursed by the Ministry of Water Supply for the employees released by the board from December 2015 to 31 December 2021. Further, Six (06) motor vehicles were also released to the Line Ministry during the said period and a sum of Rs.245,848 had been incurred as License and insurance for those vehicles during the year under review.</p>	<p>The demands have also been taken into consideration and several employees of the Board have been assigned to the Ministry. The ministry informed that since no provision has been made for these employees, their salaries cannot be reimbursed.</p>	<p>Ensure that comply with the Public Enterprises Circular and guidelines regarding releasing of resources to other organizations.</p>

3.10 Human Resources Management

Audit Issue	Management Comment	Recommendation
i. In terms of section 3.4 (ii) of the operational manual of state owned enterprises dated 17 November 2021, a succession plan had not been prepared by the board that enabling the appointment of a Chief Executive Officers who has future service capacity of at least three years.	A Succession Plan will be prepared by the Human Resource Management Division and submitted to the Board of Directors for approval, and its progress will be reported at the end of the period.	Ensure that comply with the Public Enterprises guidelines regarding preparation of succession plan that enable to appoint of a Chief Executive Officers.
ii. The Board had not taken actions to fill 1739 vacancies including strategic level posts of Deputy General Manager (Non-Technical) and Assistant General Managers, the main operational level posts such as the Managers, Chief accountants, Engineer (Mechanical), Engineer (Electrical), Engineer (Civil), Middle Level Technical (ML- T) Clerical and Other Skilled Grade etc. even as at the end of the year under review.	A recruitment and promotion procedure for Assistant General Manager (Audit) has been prepared and submitted for approval. The post of Manager (Human Resource), will be filled promptly. Vacancies in the post of Chief Accountant will be filled after the judgment. Since the recruitment of primary category posts has been suspended by Management Services Circular No: 02/2020, vacancies in PL category posts cannot be filled up since long time.	Recruit adequate staff to the Board or amend the approved cadre of the board after proper evaluation of the cadre requirement.
iii. No recruitments had been made for 18 approved posts while 23 employees had been recruited on permanent basis for three unapproved posts in Primary Grade. Further, 14 civil engineers, 17 quantity surveyors, 45 engineer assistants had been recruited on contract basis even exceeding approved carder without obtaining the approval of the Department of Management Services during the year under review.	For the implementation of the water for all program in 2025, the officers working in the engineering and industrial sector of the board were not enough, so several officers in the engineering and industrial sector were contracted. The approval of the Department of Management Services has not been received so far.	Action should be taken to recruit employees for approved vacancies and carder approval should be obtained for the recruitment of employees exceeding the approved cadre.

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| iv. | Action had not been taken to obtain the approval for Scheme of Recruitment and Promotions from the Department of Management services, as specified in the Management Services Department's Circular No. 30 dated 22 September 2006 and Section 3.2(i) of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021. | By now, the matters presented by trade unions have been included and the final form has been prepared and the approval of the Board of Directors has been obtained by the Ministry on 06.06.2022. | Actions need to be taken to get the approval for SOR from Department of Management Services. |
| v. | Contrary to the prevailing Scheme of Recruitment & Promotion of the board, external qualification of Bachelor Degree in Commerce with 2 years experience in Accountancy in a recognized institution had been included as a qualification for the post of Accountant-CL III (Board Grade 07) recruited internally during the year 2018 by publishing notice by the Additional General Manager (Human Resources) on 07 December 2015. Hence it was observed that the senior officers who had already fulfilled the required qualifications deprived the opportunity for selection for the above post. | As the employees may be demoralized and the motivation of employees may be broken, it has been decided to consider the desired qualification internally in the external call in 2015. | Ensure that all the recruitment and promotions are executed based on existing Scheme of Recruitment & Promotion. |
| vi. | The employee bearing the employee number 2023334 and currently hold the position of Sociologists in Board Grade (VI) and possess a General Degree with Master Degree in the field of sociology had been appointed initially to the post of Sociologist on 03 April 2006 in Board Grade (VIII) which was not included in the approved carder of the board only based on board decision taken without obtaining approval of the Department of Management Service. However, as per the prevailing Scheme of Recruitment & Promotion of the board, the sociologists should be recruited to the board grade 7 and it should be an external recruitment with the qualification of special degree in sociology. Subsequently, even without considering the recommendations of the Department of Management Services the | Since this officer had obtained an ordinary degree, she was admitted to Board Grade VIII. However, according to the existing recruitment procedure cannot get a grade promotion. Further, Board Grades: VII and VI have been granted under JM 1-2 pay band on board decision given on compassionate consideration and personal only to her. The approval of the Department of Management Services was sought for this, but it was | Ensure the required qualifications are fulfilled when recruiting employees. |

aforementioned employee had been promoted to the post of Sociologists (I) in Board Grade (VI) as personnel to her and again based on the request made by coordination officer of the Minister to Water Supply, she had been promoted under MM-1 (class ii) showing biasness of the decision made by the top management contrary to the directives and guidelines of the Department of Management Service and exiting Scheme of Recruitment & Promotion of the board.

- vii. Two meter readers bearing the employee numbers of 2066581 (covering up duties) and 2076640 who have committed offences during meter reading had been removed from the duties of meter reader and interdicted from his duties respectively after proper preliminary investigations. However, without recovering the losses due to forged meter reading and offences committed by above two meter readers, they had been reinstated based on the request made by Minister of Water Supply contrary to the section 31.1 of the disciplinary code of the board.
- The post of cover bill recorder has been excused for taking careless bill notes. So far no complaints have been received regarding him. Further the request of the other meter reader was sympathetically considered and he was reinstated subject to the decision of the formal disciplinary inquiry against him and assigned to the Deputy General Manager (West-Central).
- Actions should be taken against the convicted meter readers as per the provision in the disciplinary code of the board.
- viii. Total cost per employee for the past five years are as follows.
- No comments had been given.
- Action need to be taken to control the staff cost as much as possible.

Year	Total No. Of Emplo yees	Total Employee Cost Rs.Million	Cost per employee Rs.Millio n
2017	10338	11,575.10	1.12
2018	10022	12,863.07	1.28
2019	10104	12862.19	1.27
2020	9736	12841.0	1.31

2021 9336 16,416.85 1.76

Accordingly, it was observed that cost per employee had been gradually increased by 34 percent as compared by the preceding year.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
<p>i. As per Corporate Plan for 2020-2025 a new connection target of 301,762 had been established for the year in combined with “water for all” concept under the National Policy Framework and later the target had been amended to 215,000 during the year. However, 192,087 numbers of new connections were given during the year. Nevertheless, the metered sales revenue had only been increased by only 0.1 percent as compared with the preceding year which shows negative growth of 0.06 as compared with growth from 2019 to 2020 even though the number of new connection had been increased by 56 percent as compared with the preceding year. In addition to that three large Sewerage Projects are being implemented during the year under review and large scale three sewerage projects had already been completed. However, board was able to provide only 2.08 percent coverage out of total population at the end of the year which shows that board was unable to achieve even the preceding year target of 2.1 percent.</p>	<p>Billing income was not increased due to Domestic consumption per connection lies at lower slabs, most of the non-domestic institutions have consumed less or no water due to the pandemic situation, more than 50% of new connections have been provided during the latter part of 2021. Further, the sewerage target could not achieved due to lack of funding for the implementation of planned projects and COVID pandemic.</p>	<p>Actions should be taken to achieve the targets included in the Corporate Plan.</p>
<p>ii. As per the corporate plan it is expected to implement nine (09) sewerage projects out of the Colombo district and an amount equivalent to Rs.790 billion had been estimated for the year. However no any sewerage projects had been implemented even by the end of the year under review.</p>	<p>Due to lack of funding expected sewerage projects couldn't be implemented.</p>	<p>-Do-</p>

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
i. Annual action plan for the year 2021 had been prepared and approved by the Secretary to the Line Ministry on 01 February 2022 after a month from the implementation of the action plan even though approval should have been taken prior to commencement of the year.	Approved budget allocation for the year received from the Ministry on 21 December 2020. Action plan had been submitted to the Ministry within ten days of receiving the approved budget. However, Action Plans Submitted have been approved by the Secretary to the Ministry of Water Supply on 01st February 2022.	Action plan should be prepared and approved before commencement of the year.
ii. According to the information provided by the board, twenty two (22) numbers of foreign funded water supply projects, eleven (11) numbers of local funded water supply projects and three (03) large scale sewerage projects had been implemented during the year under review. However, out of that twenty five (25) projects had failed to achieve expected progress.	Delay in progress of project works were due to Covid-19 pandemic, financial issues of the contractors, import restrictions on importations, unexpected weather conditions etc.	Action should be taken to achieve the expected project progress at the end of the year under review.
iii. As per the annual action plan for the year 2021, it was expected to complete five large scale foreign funded projects, six local bank funded projects including projects implemented under the 3.5 billion loan scheme and projects implemented in Northern, Central and Uva provinces under the utility shifting programme during the year under review. However, it had been failed to achieve the expected progress at the end of the year under review.	These delays were due to Covid -19 Pandemic, un-availability of accurate as-built drawings of the existing water pipes, unexpected underground utilities and heavy traffic conditions in the Colombo Roads, farmer's objection, unexpected rock, unfavorable weather conditions, delay in getting approvals from Road Development Authority, financial issues of the contractors, poor performance of the contractors etc.	-Do-
iv. Nine (09) projects which had been planned to commence during the year under review, had not been commence even by the end of the year under review.	Due to the financial restrictions above projects were not initiated, although included in the action plan -2021.	Action should be taken to achieve the expected target in the action plan.

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
i. Seventeen (17) vacancies in the Internal Audit Section including Assistant General Manager, four (4) Chief Internal Auditors and an Engineer had not been filled even as at 31 July 2022.	The posts of chief internal audit could not be filled due to pending court cases. The recruitment and promotion procedure for the post of Assistant General Manager has been submitted for approval. Recruited on Contract Basis for Quantity Surveyor Vacancy.	Action should be taken to fill the vacancies without delay.
ii. Large numbers of water supply and sanitation services projects which use local and foreign funds are carrying out by the Board. However, adequate number of staff had not attached to the technical audit section of the Board. Further, the transaction of some of the large scale foreign funded projects such as Greater Colombo Water & Waste Water Management Improvement Investment Programme, Anuradhapura North Water Supply Project Phase –ii, Kaluganga Water Supply Project, Kandy City Wastewater Management Project had not been subject to the Internal Audit of the Board during the year as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.	Already appointed 10 nos. of Engineering Assistants to the Internal Audit section & same attached to the RSCs to carry out technical audits on new project activities accordance with payments & quality control, operation & maintenance of water treatment plant & distribution networks, procurement processes, and other in-line activities at the regional level	Adequate number of audit staff need to be recruited to the technical audit section of the Board and need to adhere to the Management Audit Circular.

4.4 Budgetary Control

Audit Issue	Management Comment	Recommendation
Significant variances were observed in budgeted and actual income and expenditure ranging from 13 percent to 214 percent. Hence, it was observed that budget had not been made use as an effective instrument of management control.	Due to turbulent economic situation prevailed during last year it was widen the difference. However, variance of those will be taken in to account in preparing next year budget.	Actions need to be taken to mitigate the significant variances between budgeted and actual income and expenses in order to utilize the budget as an effective control mechanism.

4.5 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
i. Upon being aware of the agenda-2030 on Sustainable Development Goals of the United Nations Organization, Board had identified the sustainable development goals such as achieve universal and equitable access to safe and affordable drinking water for all and achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situation in 2030. However, no actions had been taken to identify the other goals coming under the scope thereof, targets and statistical data in achieving the targets relating thereto as well as evaluating the performance. Further, no internal circulars or guidelines had been issued by the board in respect of implementation of Sustainable Development Goals even by the end of year 2021.	Corporate Plan 2020 - 2025 prepared in parallel with promise of the government for ensuring the right to access for pipe borne safe drinking water to all. As of the Corporate Plan 2020-2025, it has been planned to achieve 79% piped drinking water supply coverage by the Board. Further it is noted that remarkable achievement of new connections was achieved in 2021.	i) Actions need to be taken to identify the other goals coming under the scope of sustainable development goals, targets and statistical data in achieving the targets relating thereto as well as evaluating the performance and to issue internal circulars or Guidelines in respect of implementation of Sustainable Development Goals.
ii. No methodology had been followed for disaggregating data representing all parties in respect of indices relevant to the board and methodology for verification of accuracy of data had not been identified even by 31st March 2022.	Progress reports such as Statement of Corporate Intent, Organizational Results Framework, data and information provided on-demand basis for coordinating external agencies such as the Department of Public Enterprises, Department of Project Management & Monitoring, Central Bank of Sri Lanka, Department of Census and Statistics and Relevant Ministries.	Action should be taken to identify milestones required for monitoring functions and follow methodology for disaggregating data and verification of accuracy of data.
iii. As per the targets set by the Secretary to the Line Ministry in 2019 in align with the sustainable development goals, it was expected to increase the sewerage coverage up to 2.25 percent in the year 2020 and 4 percent in the year 2025. However, the actual sewerage coverage even at the end of the	Implementation of Sanitation Master Plan is in progress to achieve main areas.	Action should be taken to achieve the predetermined sanitation targets without delay.

year under review was confined only to 2.08. Further, no any remarkable actions had been taken by the board to ensure the achievement of other targets of 90 percent of the population is using safety managed sanitation facilities by 2025 and 25 percent of local authorities have septage treatment facility by 2025 even though board's technical support was expected as per the above targets of the Secretary to the Line Ministry.