

## **National Water Supply and Drainage Board - 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Water Supply and Drainage Board (“Board”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 report 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 2019, 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**

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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**

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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**

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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 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

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### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

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<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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i. Contrary to Section 32 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), a credit balance of trade receivables and debtors collection control account amounting to Rs.9,772,912 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. Further depreciation and deferred Income amounting to Rs.1,043,784 in respect of Computer Software received as grants had been set off each other without been shown them separately in the Financial Statements.	Due to the manual system being computerized these balances were rolling over from the year 1999.	Ensure that comply with Sri Lanka Accounting Standard 01 (LKAS 01) when presenting financial statements.

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| ii.  | Contrary to the Section 07 of the Sri Lanka Accounting Standard on Statement of Cash flows (LKAS 07), a deposit made in a saving account amounting to Rs.1,361,683 had been categorized under non-current assets.  | The deposit 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.  | Ensure that comply with Sri Lanka Accounting standard 07-(LKAS 07) when categorizing assets as Current and Non – Current.   |
| iii. | 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 the fully depreciated assets amounting to Rs.1,813,275,339 still in use had not been reviewed and accounted accordingly.   | It is impracticable to value the asset base of the NWSDB as there is an immense asset base scattered around the country.   | Ensure that comply with Sri Lanka Accounting Standards 16 (LKAS 16) regarding reassessing the useful economic life time of fully depreciated assets that are being used by the board. |
| iv.  | As per paragraph 66 and 144 of the Sri Lanka Accounting Standard on Employee Benefits (LKAS 19), it was revealed in audit that the board had not applied an actuarial valuation method and made any actuarial assumptions and disclose them in order to measure the present value of the post-employment benefit obligation and the related current service cost during the year under review. Further, provision for retirement benefit obligation (Gratuity provision) was not made in the financial statements for the year under review as per the requirements of the paragraph 58 of the standard. Instead of that an amount equivalent to Rs.578,942,828 which was paid as gratuity (excluding project staff) during the year under review had been identified as provision of the year under review. | The actuarial is carried out in the board by obtaining the service of an expert in every three years. The gratuity paid during the year is captured as provision and as well as an expense for the year. | Ensure that comply with Sri Lanka Accounting Standards 19 (LKAS 19) regarding recognizing employee benefit obligation and making relevant disclosures.                                |

- v. 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.14,697.25 million relating to 34 Projects which remained without being amortized over a period of 8 to 12 years had been brought to the accounts as at 31 December 2019. 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.
- Grants related to non-depreciated asset including lands were remained without being depreciated over the period. Also the life period of buildings prevailed are over 50 years. The respective grants were depreciated until such period.
- Ensure that comply with Sri Lanka Accounting Standards (LKAS 20) regarding amortization of foreign grants.
- vi. Contrary to paragraph 23 (a) of the Sri Lanka Accounting Standard on Effects of changes in Foreign Exchange Rates (LKAS 21), the board had not translated the value of five (05) US dollar fixed deposits aggregating to US\$ 84,176,147 in to rupees using the closing rate at the end of the year under review . Hence the value of fixed deposits in the financial statements had been understated by Rs.159.09 million approximately. Further exchange difference arose on translating the monetary items had not been recognized in the financial statements as per the paragraph 28 of the standard.
- On initial recognition of the financial assets, it had been recorded by applying spot exchange rate to the foreign currency amount by the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- Ensure that comply with Sri Lanka Accounting Standards 21 (LKAS 21) with regard to recording of foreign currency mentoring items.
- vii. Contrary to the provisions in the Sri Lanka Accounting Standard on Investment Property (LKAS 40), the Carrying value of Investment Property amounting to Rs.337,781,741 had been shown as Property Plant & Equipment, instead of been shown as Investment Property as at 31 December 2019. Further, as per the paragraph 75 (f) (i) and 79 of the
- The building currently occupied by the Ministry of Water Supply is 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.
- Ensure that comply with Sri Lanka Accounting Standards (LKAS 40) regarding recognition of Investment Property.

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.

### 1.5.2 Accounting Deficiencies

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
i. Stolen stocks in Kelaniya region four years ago amounting to Rs.2,549,787 had been included in the inventory as at 31 December 2019 without recovering such losses from respective officers.	When the ongoing inquiry has been finalized an action will be taken to write off from the books of accounts.	Action should be taken to remove such stock balances from books of accounts and take immediate actions to recover the losses from responsible officers.
ii. 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 action had been taken to remove them from books of accounts.	A Board Paper was submitted to obtain the board approval for Rs.65,852,393 to write off these unusable assets from the books of accounts.	Actions should be taken to dispose unusable assets and remove them from books of accounts.
iii. As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2019 were Rs.4,866,811,132. However, provision for impairment had been made only for debtors amounting to Rs.4,728,910,812. Hence no provision had been made for the debtors aggregating to Rs.137, 900,320.	The impairment calculation was based on actual figures given by commercial system.	Ensure accuracy of provision of impairment for debtors.
iv. Upon completion of the ADB (iv) project, three transformers which had been installed for electricity supply to the treatment plant, reservoir and raw water intake valued at Rs.106,835,381 had been transferred to the board. However, the value of assets had been shown as mobilization and other advances instead of being shown as	It relates to the electricity deposit made by said region to the Ceylon electricity board.	Ensure the accuracy and completeness of fixed assets recorded in books of accounts.

non-current assets in the statement of financial position at the end of the year and provision for depreciation had not been made for above assets during the year under review.

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| v.   | As per physical verification report of Ampara Regional Office, it was observed that buildings structures and plant & equipment with an aggregate value of Rs.3,596,600 in relation to Maha Oya, Samanthurei, Uhana & Konduwattuwana cost centers had been removed from usage and structures valued at Rs.7,088,478 had been demolished. However, without taking any actions to dispose such assets, a depreciation provision of Rs.212,914 had been made for during the year under review.                           | The plant valued at Rs.7,088,478 has been removed and actions are being taken to dispose this asset through a Board Paper.  | Ensure the accuracy, completeness and existence of fixed assets recorded in books accounts.   |
| vi.  | As per the physical verification report of Ampara Regional Office, the assets with an aggregate value of Rs.46,361,081 were not available physically. However, a depreciation provision of Rs.946,602 had been made during the year under review.  | As per detailed explanations agreed with the paragraph.   | Ensure the accuracy, completeness and existence of fixed assets recorded in books accounts.   |
| vii. | Economic Service Charges (ESC) paid during the year 2017 amounting to Rs.65,383,426 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.   | Ensure accuracy of Income Tax Expenses in the Statement Of Comprehensive Income.  |
| viii | As per the information received, the cost of fifty-five (55) completed and commissioned Water Supply and Rehabilitation Projects amounting to Rs.1,133,341,195 had remained in the work-in-progress as at 31 December 2019 without being capitalized. Further, out of advances received for rechargeable works, a sum of Rs.12,617,859 relating to 05 projects in Kaluthara Region and western central region had already been completed. However, it had not taken to relevant income account even by 30 June 2020. | The Project Director has to send the asset form to capitalize. Further in case of rechargeable projects, once certification is completed, the relevant entries will be passed to clear this balances. | Actions should be taken to capitalize the completed and commissioned water supply and rehabilitation projects and advances received for rechargeable works should be credited to relevant income account once the projects are completed. |
| ix.  | It was observed that the Board had made prior year adjustments in the financial statements of the year 2018 and 2019 pertaining to years 2016,   | As per the LKAS 8 it is a regulatory requirement to correct the prior period  | Actions should be taken to avoid distorting profits by making prior year  |

2017, and 2018. As a result, the retained loss as at the end of year 2018 is distorted by Rs.117.96 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. The details of such prior year adjustments made in the year under review and the previous years are given below.

Year	Amount Debited	Amount Credited	Net effect to the accumulated Profit
	Rs.	Rs.	Rs.
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2018	8,086,792	108,922,950	100,836,158
2017	18,821,712	140,160,044	121,338,332
2016	243,896,877	139,680,704	(104,216,173)

errors. However the adjustment as a practice. The adjustment made to the prior periods have reduced to Rs.100,836,158 in the year 2019.

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| <p>x. In respect of seven (07) Projects, the balances aggregating to Rs.198,729,791 shown under the work-in-progress are remained unchanged over ten years without being investigated in order to make necessary adjustments in the financial statements.</p>  | <p>The Project Director has to send the asset form to capitalize.</p> | <p>Actions should be taken to capitalize the completed and commissioned water supply and rehabilitation projects.</p>            |
| <p>xi. As per audit test check carried, it was observed that Interest income received and withholding tax deducted thereon amounting to Rs.15,302,077 and Rs.1,125,718 respectively with regard to three (03) fixed deposits had not been accounted. Further, Interest received on three (03) US dollar deposits amounting to US\$ 91,395.37 had been recorded in the financial statements in dollar terms instead of converting in to rupees. Hence, the interest income, withholding tax receivables and bank balances had been understated by Rs.15,619,025, Rs.780,502 and Rs.14,838,523 respectively. And also accrued interest income of Rs.137 million in respect of four (04) US dollar deposits had not been recorded in the books of account. In addition to that interest received amounting to Rs.3,457,862 on another deposit account for the period 08 November 2019 to 08 December 2019 had not been accounted.</p> | <p>These interests will be corrected in 2020.</p>                     | <p>Actions should be taken to pass the relevant correction entries with regard to interest income on fixed deposits.</p>         |
| <p>xii. Accrued interest income on another fixed deposit amounting to Rs.1,130,959 had been accounted twice, while accrued interest on another fixed deposit amounting to Rs.352,247 had not been accounted.</p>   | <p>The entry correction will be made during the year 2020.</p>        | <p>Actions should be taken to pass the relevant correction entries with regard to accrued interest income on fixed deposits.</p> |



<p>xiii Out of the opening balance of interest income receivable on BOC fixed deposits amounting to Rs.71,040,247, only a sum of Rs.49,702,919 had been recovered during the year under review. Hence, the remaining balance of Rs.21,337,328 had not been properly identified and accounted during the year under review.</p>	<p>This will be corrected in 2020.</p>	<p>Actions should be taken to clear the opening balances of interest receivables during the year under review itself.</p>
<p>xiv. As compared with the confirmation received from banks in respect of outstanding loan balance of two (02) foreign funded projects and three (03) Local Bank projects with the balances in financial statements, it was observed that outstanding loan balance as per financial statements had been overstated by Rs.292,455,446. Further, as compared with the confirmations received from banks in respect of accrued interest on loans of nine (09) local funded projects, it was observed an overprovision of Rs.7,558,250 had been made.</p>	<p><b>Package iii, Ampara, Colombo City, 22 Projects, Medirigiriya</b></p> <p>The difference of Rs.419,100 is due to the receipt which has to be raised in the year 2019 has been raised in January 2020.</p> <p><b>Ampara District Distribution Network WSP</b></p> <p>The difference of Rs.1,058,700 is due to the receipt being raised in January-2020.</p> <p><b>Laggala New Town Water Supply Project</b></p> <p>This is due to the Interest payable amount being incorporated to the loan outstanding balance by the Bank.</p> <p><b>Aluthgama, Mathugama, Aglawatta Water Supply Project</b></p> <p>When calculating value as per financial statement audit has erroneously added both BOC &amp; Indian Exim bank value together.</p>	<p>Ensure accuracy of calculation of year end loan balances and accrued interest thereon.</p>

**Hemmathagama Water Supply Project**

Value as per the Financial Statements is Rs.3,875,023,311 and the bank has confirmed Rs.3,772,862,944.

Further as per the prevailing records the loan interest to be accrued for the year 2019 is Rs.2,459,661,806.

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| <p>xv. Without having the approval of Secretary to the Line Ministry as per Public Finance Circular No.02/2016, it had been decided to write off a balance in trade debtor amounting to Rs.758,840 in Mannar District by the board of Directors. However, the amount had been credited to metered sales account instead of trade debtors.</p>  | <p>As per the Financial Regulation section 102 to 108 trade related losses could be written off by obtaining the board approval.</p> | <p>Should strictly adhere with the provisions in Public Finance Circular and the correction entry should be pass accordingly</p> |
| <p>xvi. Long outstanding balances of assets and liabilities amounting to Rs.149,681,812 and Rs.72,141,419 respectively which includes other debtors, advances, trade creditors, unclaimed salaries, etc. which had been charged to a suspense account during previous years had been charged to the respective accounts during the year under review and identified as non-operating assets and non-operating liabilities without taken actions to clear such balances. Further, an unidentified balance of Rs.95,796,513 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.</p> | <p>Due to the manual system being computerized these balances were rolling over from the year 1999.</p>                              | <p>Actions should be taken to clear the non-operating assets and liabilities balances.</p>                                       |

**1.5.3 Un-reconciled Control Accounts or Records**

Audit Issue Description	Management Comment	Recommendation
<p>i. Accuracy and completeness of three (03) items of fixed assets such as Land Free Hold, Building Free Hold and Partitions could not be ascertained in audit due to an aggregate absolute difference of Rs.105,427,971 existed</p>	<p><b>Sabaragamuwa Region</b> Land acquisition has not been completed.</p>	<p>Actions should be taken to reconcile fixed asset registers and the corresponding schedules.</p>

in value of Property Plant and Equipment between fixed asset registers of Vavuniya, Batticaloa, Kalutara, Panadura regional offices, regional support centre (Sabaragamuwa) and corresponding schedules furnished to audit.

Hence, they were not included in the assets register. But these lands are being currently used in the NWSDB. Therefore it is presented in financial statement as lands.

**Panadura**

After obtaining the required documents this will be taken into the asset register.

**Kaluthara**

The differences will be corrected in year 2020.

**Baticloa**

The difference of Rs.4,896,791 will be cleared in the year 2020.

ii. Following differences were observed.

<b>(a) Trade Debtors</b>	<b>(Rs.)</b>
As per financial Statements	4,707,186,657
As per Age analysis	<u>4,567,497,570</u>
Difference	<u>139,689,087</u>
<b>(b) New Connection Debtors</b>	<b>(Rs.)</b>
As per financial Statements	159,624,475
As per Age analysis	<u>63,934,575</u>
Difference	<u>95,689,900</u>
<b>(c) Metered Sales &amp; Bulk Sales</b>	<b>(Rs.)</b>
As Per Financial Statement	23,995,638,648
As Per MIS Reports	<u>23,846,150,000</u>
Difference	<u>149,488,648</u>

(a) & (b) There is a difference between Commercial System and the General Ledger System.

(c) The difference is due to the estimated figures and the actual figures given by the Commercial Division.

Reconcile the balances in Financial Statements and the corresponding schedules.

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| <p>iii. As per the audit test check carried out, an aggregate difference of Rs.431.5 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 four Foreign Funded Projects.</p>  | <p>Reconciliations were submitted through annexures.</p>  | <p>Actions should be taken to reconcile under mentioned differences accurately.</p> |
| <p>iv. An unidentified debit balances and credit balances amounting Rs.20,139,121 and Rs.19,487,118 respectively shown in the bank reconciliations in respect of four (04) banks accounts had not been cleared .</p>  | <p><b><u>Unidentified Debit Balance</u></b><br/>Out of credit balances Rs.6,324,749 had been cleared in 2020 and information was requested from the bank to clear the balance. Further unidentified debit balances will be cleared in 2020.</p>   | <p>Unidentified debit and credit balance should be reconciled and cleared.</p>      |
| <p>v. A difference aggregating to Rs.12,243.47 million was observed in foreign grants of Kandy City Waste Water Management Project and Dry Zone Urban Water and Sanitation Project when compared financial statements of the board with the financial statements of the respective projects. Out of the difference of Rs.8,482.62 million in Kandy City waste Water Management Project, reason for the difference of Rs.8,425.68 million had only been submitted to the audit. Further, difference of Rs.3,760.86 million in Dry Zone Urban Water and Sanitation Project due to posting error had not been corrected in books of accounts of the board even by 30 March 2020.</p> | <p><b><u>Kandy City Waste Water Management Project</u></b><br/>Difference was due to, Grant account of this project is accounted along with grant portion of Kandy north pathadumbara integrated WSP and accounting of local grant of the Project in this account.</p> <p><b><u>Dry Zone Urban Water and Sanitation Project</u></b><br/>Difference of posting error will be corrected in the year 2020.</p> |   |

#### 1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
<p>The outstanding loans balance amounting to Rs.85,106,439,687 which had been obtained for the projects commenced after the year 2014 had been transferred to Government Equity account from the year 2015. However, as per the records of the General Treasury an amount equivalent only to Rs.59,348,887,214 had been capitalized as loans payable on behalf of the Board. Hence, it was observed that an amount equivalent to Rs.25,757,552,473 which payable by the board as foreign loans had been transferred to Government Equity contrary to 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.</p>	<p>The debt was converted to equity due to a Policy decision taken by the Government.</p>	<p>Actions should be taken to reconcile the balance transferred as government equity with the treasury.</p>

#### 1.5.5 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) New Connection Debtors	156,043,490	Detailed Schedules and Age Analysis	(a) (c), (d), (g), (h),(J) & (k) – Submitted to General Audit.	(i) Actions should be taken to maintained detailed schedules of each debtors and creditors, loans and advances given to employees in a data base.
(b) Special Bonus & Festival Advances	1,211,506	Detailed Schedules	(b) The special advance of Rs.10,529,933 given in the year 1999 is to be recovered at the time of the retirement of the employees.	(ii) After a detail tax computation expense for the year should be recognized in the Statement of Income.
(c) Distress Loans and Vehicle loans & other employee loans	16,446,209	Detailed Schedules		

(d)	Other Debtors	78,817,838	Detailed Schedules	(e)	Preparation of age analysis for the stock base is impossible due to massive stock base in the NWSDB.	(iii)	Confirmations of lease creditors should be taken prior to submitting financial statements to the audit.
(e)	Non-moving & Slow-moving Stocks	1,039,566,195	Age Analysis	(f)	The non-submitted reports are still in progress.	(iv)	All the completed schedules to should be submitted to the audit with financial statements.
(f)	Property, Plant & Equipment	53,226,240,081	Fixed Asset Registers and Verification Reports	(i)	The computation of Tax for the year 2019/2020 is to be produced to IRD on 30th Nov 2019.	(v)	Board of survey should be completed prior to submitting financial statements to the audit.
(g)	Trade Creditors	68,854,475	Detailed Schedules			(vi.)	All the updated fixed assets registers should be submitted to the audit.
(h)	Other Creditors	332,650,903	Detailed Schedules			(vii)	Details schedules of short term deposits should be properly kept in a data base in order to take follow up actions.
(i)	Tax expense	65,383,426	Detailed income tax computation for the year			(viii)	Age analysis of slow moving or non-moving items should be prepared in order to identify the excess items.
(j)	Lease Creditors	3,190,775	Bank Confirmations				
(k)	Short Term Deposits in Other Institutions	13,211,058	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.1,392 million had remained over two years without being	The recovery process is continued to recover outstanding such as sending red notices, disconnection of water and	Take sufficient and necessary actions to recover the due amount from the debtors.

- recovered. Out of that 54 per cent represents in Colombo, Kelaniya, Kotte and Dehiwala regions.
- implementation of legal action.
- ii. A sum of Rs.3,637,204 in respect of 17 water connections given to ministers quarters had remained without being recovered as at the end of the year under review. Out of that a sum of Rs.2,268,899 had remained over two years without being recovered.
- Action has been taken to recover the same but is still pending.
- Actions should be taken to expedite the recovery process for outstanding from ministers quarters.
- iii. As per the age analysis of disconnected debtors, an amount equivalent to Rs.1,328,616,496 had remained outstanding as at 31 December 2019 and out of that 88 percent represent only three consumer categories such as domestic, stand posts and commercial institutions. Further, out of the above balance a sum of Rs.1,049,623,385 which equivalent to 79 percent had remained outstanding for over two years.
- Legal recovery process is being continuously ongoing for the disconnected arrears. However, there are identified uncollectable arrears which have to be written off in the future.
- Actions should be taken to expedite the recovery process.
- iv. Direct confirmation had been called in respect of randomly selected trade debtors in commercial sector and public sector amounting to Rs.246,674,502, and the debtors amounting to Rs.2,821,503 are agreed with the confirmations and debtors amounting to Rs.1,020,080 are not agreed with the confirmed balances. Confirmations had not been received in respect of debtors amounting to Rs.242,832,919 up to 30 July 2020.
- The board has called confirmation from the debtors and has directed them to send their confirmation directly to the Auditor General's Department.
- Take actions to review the accuracy of existence customer data base.
- v. As per the financial statements of the Board, the receivable from Sri Jayewardenepura Hospital was Rs.7,712,773. However, as per the financial statements of the Sri Jayewardenepura Hospital it was shown as Rs.2,201,854.
- Not commented.
- Take actions to review the accuracy of existence customer data base.

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| vi.   | No legal actions had been taken to recover the advances given to contractors in Regional Support Center (Central) during the year 2003 to 2008 aggregating to Rs.8,177,506 and advances given by head office amounting to Rs.26,103,612 during the year 2009 to 2012.  | For advances of RSC Central, legal actions will be taken after obtaining information from legal officer of the board.   | Legal actions should be taken without delay to recover the long outstanding advances.   |
| vii.  | Short term deposits aggregating to Rs.47,430,495 deposited in external institutions including Road Development Authority, Colombo Municipal Council, Provincial Road Development Authority and Municipal Treasurer had remained outstanding over three years without being recovered. Further, an advance kept at line ministry amounting to Rs.4,378,828 had remained outstanding over seven years without being recovered and due to unavailability of detailed information it could not be verified in audit. | Several actions were taken to get the refund but due to absence of necessary documents they could not be recovered. Further action will be taken in the near future.  | Actions should be taken to expedite the recovery process regarding deposits kept at external institutions.  |
| viii. | Contractor's retention and refundable tender deposits amounting to Rs.1,078.80 million (except retention of Kandy City Waste Water Project) and Rs.3.19 million respectively had remained over three years without being released to relevant parties or to treat them as income. Further, no evidences were made available for audit to verify whether the contracts related to those retentions and deposits had been completed.   | Upon completion of projects, the board will release the retentions to the respective contractors only on the basis of the contractors' requests. After a certain period of time, the retention amounts which are not requested are treated as income. | Actions should be taken to investigate the unchanged balances of Contractor's Retention and Refundable Tender Deposits and take actions to settle them. |

**1.6.2 Payables**

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
i. Balance of other creditors aggregating to Rs.35,519,035 had remained outstanding over 03 years without being settled. Since the board had not maintained a proper database of other creditors their	it is planned to develop a sub ledger system for maintain entries for individual creditors in the system in due course which will improve efficiency	Actions should be taken to expedite the introduction of sub ledger system for maintain entries to overcome the clarification errors.



value could not be verified through confirmations.

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| ii. An unsettled balance of creditors control account amounting to Rs.94,822,485 remained over three (03) years was observed in 07 regions as at 31 December 2019. | The creditor will be settled upon their request. | Action should be taken to verify the accuracy of database of creditors. |
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### 1.6.3 Advance

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
The Board had purchased a land to construct a Wastewater Treatment plant under Galle Area Wastewater Disposal Project and the Department of Valuation had valued this land as Rs.71.5 million. A sum of Rs.21.25 million equivalents to 30 percent of the land value had been given on April 2014 to the land owner as advance on the recommendation of senior legal officer of the Board. However, a court case had been filed to recover the advance paid, due to dispute regarding the ownership of the land occurred subsequently. However, the land had already been occupied some families and existing owner had removed the soil from the land after receiving the advance. The advance paid and penalty thereon had not been recovered from the land owner or the responsible officers of the Board even as at 31 July 2020.	Separate investigation is currently carried out to recover the advance payment by the legal section a case was filed to recover the of Rs.21.45 from the owner. As per the section 38 of the land acquisition act, the right to use of this land was taken over by the Divisional Secretary.	Action should be taken to recover the advances paid and take disciplinary actions against responsible persons.

### 1.6.4 Suspense Accounts

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
Net value of the Assets, Liabilities and Equity balances of the board amounting to Rs.793,388,346 had been transferred to suspense account during the year 2016, 2017 and 2018 without taking any actions to investigate such balances. However, during the year under review	Programme is being initiated to take measures to clear the suspense account balance. Due to the manual system being computerized these balances were rolling over	Actions should be taken to clear the Suspense Account.

those accounts had been restated without taking actions to clear such balances. Further, at the end of the year under review a suspense account balance of Rs.46,048 had remained in accounts without being cleared.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	General Manager's Circular			
i.	Admin/ 12/ 2015 of 12 August 2015	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.481,739,086 in respect of 2,089 disconnected debtors whose bill value over Rs.50,000.	Due to the large customer base the legal action to recover takes substantial period of time.	Ensure strict compliance with General Manager's Circulars.
ii.	Admin/09/2018 of 26 Sep 2018 Section (02)	Monthly rent equivalent to the market rent and 12.5 percent of surcharge from salary shall be charged from employees who occupies quarters more than 5 years. However. Penalty rent (rent including surcharge) amounting to Rs.2,326,566 from 17 employees in Regional Support Centre (South) for the year under review and Rs.656,732 from 04 employees in Monaragala Manager office from September 2018 to December 2019 had not been recovered even as at 31 July 2020 although they have occupied quarters over 5 years.	The recovery of the market rate rent along with penalty is carried out case by case.	Ensure strict compliance with General Manager's Circulars.
(b)	Management Services Circular No. 30 of 22 September 2006	Approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained.	Preparation of Scheme of Recruitment is still in process and comments have been called from relevant parties to stream line it.	Ensure strict compliance with Management Service Circulars.

- (c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka.
- i) Financial Regulation 770 Without taking actions to dispose the obsolete stocks valued at Rs.29,180,175, it had been included in the financial statement of the year 2019 as inventory. The obsolete stocks are disposed after obtaining the Board Approval. Ensure that comply with Financial Regulations.
- ii) Financial Regulation 756 Board of Survey for the year 2019 had not been completed even by 31 July 2020. Due to the Covid 19 pandemic, the Board of Survey was delayed but was completed subsequently. Ensure strict compliance with Financial Regulations.
- iii) Financial Regulation 396 No actions had been taken in respect of un presented cheques amounting to Rs.24,081,457 which remains without presented for more than six months. Cleared in 2020. Ensure strict compliance with Financial Regulations.
- (d) Management Audit Circular No.1/2017 of 15 February 2017 Only one Internal Auditor had been appointed for the Development Projects which are funded by foreign financing. The Management Services Department has not given the approval for the above to date to recruit Internal Auditors for foreign funded projects. Ensure strict compliance with Management Audit Circulars.
- (e) Public Finance Circular No. 02/2016 of 12 February 2016 Trade receivables with regard to stand post connections in Jaffna amounting to Rs.5,390,596 had been written off during the year under review without obtaining the treasury approval. Board approval has been taken to write of this balance. Ensure strict compliance with Public Finance Circulars.
- (f) Public Enterprise Circular No.01/2015 of 25 May 2015  
 (i) Section 02 Two vehicles each had been allocated for Chairman, Vice Chairman and Working Director of the Board contrary to the circular. Depending on the requirement the vehicles are allocated to the sections. Ensure strict compliance with Public Enterprise Circulars.

(ii)Section 3.1	A sum of Rs.1,590,251 had been spent for fuel of the vehicles allocated to Chairman, Vice Chairman and Working Director exceeding approved limits during January 2019 to August 2019. Further a sum of Rs.463,427 had been spent for the fuel of Deputy General Manager and Assistant General Manager and Regional Manager in regional support center (south) during January 2019 to October 2019.	The expenditure incurred will be covered through a board paper.	Ensure strict compliance with Public Enterprise Circulars.
(g) Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003	During the year under review, the Board had paid a sum of Rs.22.03 million as salaries and allowances of eighteen (18) employees who had been released to the Line Ministry by 31 December 2019. Accordingly, Ministry of Water Supply should reimburse Rs.168.45 million to the Board for the employees released from December 2015 to 31 December 2019.	When requests are made by the Secretary of the Ministry, they are being released to the Ministry on temporarily basis. However the Ministry has informed that they do not have budgetary provisions to reimburse salaries.	Ensure strict compliance with Public Enterprises Circulars.
(h) Section 2 Part 3.1,18.15 (c) of the Facility Agreement of Gampaha, Aththanagalla & Minuwangoda Integrated Water Supply Project	Out of the loan proceeds disbursed, a sum of Rs.15,273.76 million had been invested in five (05) US dollar deposit accounts in 08 October 2019 without being utilized for intended purposes.	Until the commitment arises, the surplus fund is invested as short term investment to improve efficiency of the fund utilization.	
(i) Establishment Code of Democratic Socialist Republic of Sri Lanka	(i) Section 5 of paragraph XIX As per random audit test check, it was observed that in relation to Matara, Galle, Hambanthota and Monarala Manager office and Regional Support Center (central), a monthly rent ranging from Rs.125 to Rs.1,000 only is being charged from 109 staff quarters.	Rent of the quarters may vary depending on the size and the type etc.	Ensure that comply with provisions in the Establishment Code.

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| (ii) | Section 4.1 of Paragraph XIX   | Five staff quarters in Matara, Monaragala manager offices and Regional Support Centre (Central) had been occupied by five outsiders.                                    | The eligible employees are given family quarters on nominal rent basis.   | Ensure that comply with provisions in the Establishment Code.                      |
| (j)  | Section 14.6 of FIDIC Guidelines (Conditions of Contract for Construction) | Payments had been made for bills less than 2.5 percent of total contract value on interim payments certificates No.01 and 02 in Matara Stage (iv) Water Supply Project. | Even though the payments are less than 2.5% of the total contract value, the payments for interim certificate no 01 and 02 were made to avoid the interest claim of the NDB Bank. | Ensure that comply with provisions of FIDIC Guidelines and conditions of contract. |

## 1.8 Cash Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
i. The Cash fraud of Rs.248.44 million committed at Trincomalee, Kelaniya and Ampara Regions during the year 1999 to 2006 had not been recovered from the responsible persons even up to 31 December 2019.	Criminal cases, the NWSDB has filed Civil cases in the Mount Levnia District Court to recover the financial losses from the above persons.	Ensure that Internal control procedures are in place to prevent from under mentioned situations in future.
ii. The Cash fraud of Rs.272,735 committed at Bandarawela Region during the year 2001 had not been recovered from responsible persons even up to 31 December 2019.	A case was filed but due to a technical reason it has to be filed again.	Ensure that Internal control procedures are in place to prevent from under mentioned situations in future.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a pre – tax net loss of Rs.1,111,451,220 and the corresponding net loss in the preceding year amounted to Rs.517,037,963 (re-stated). Therefore massive deterioration of profit amounting to Rs.594,413,257 of the financial result was observed . The significant increase in administrative expenses and increase in finance cost on loans payable by 50 percent 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
Cost of Sales	793	5	Increase in pumping cost, chemical cost, repair maintenance, rent & rates etc.
Finance Income	(120)	(8)	Decrease in Investment Income
Finance Cost	203	77	Increase in loan disbursements during the year as compared with previous 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	2019	2018
Gross Profit Margin	36.29	36.22
Net Profit Margin	(4.26)	(2.30)
Current Ratio (No. of time)	1.48	2.81
Liquidity Ratio (No. of times)	1.36	2.48
Total Asset Turn over (No. of times)	0.04	0.05

According to the above information, key financial ratios of the board for the year under review had shown an unfavorable condition as compared with the preceding year. The net loss margin of 2.3 percent of the preceding year had further deteriorated to a net loss margin of 4.26 percent for the year under review. Current ratio and the liquidity ratio had been drastically decreased by 1.33 and 1.12 times respectively, due to abnormal increase in trade and other payables by 130 percent and current portion of capital and interest on loans by 120 percent shown under current liabilities as compared with the preceding year. Further, total outstanding loan balances of the board had been increased from 100.28 billion to 151.35 billion or by 50 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 32 percent to 48 percent or by 19 percent as compared with the preceding year.

### 3. Operational Review

#### 3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
i. An amount equivalent to Rs.1,561,573 had been incurred as default interest due to delay in repayment of installment by the board in respect of two (02) projects which was funded by local banks	Due to the delay in providing funds by the General Treasury to settle the debt service, the HNB and Commercial Bank charged penal interest of Rs.1,561,573.	Ensure that debt service payments are made on due dates.
ii. As a solution for mixing of sea water to drinking water in Kalu river, a contract had been awarded on 03 February 2016 to construct a salinity barrier at a contract sum of Rs.11,284,500. However, the entire expenditure incurred had become uneconomic, since the purpose of construction had not been achieved and the liquidity of salt in water had not been resolved as expected.	The NWSDB had taken a genuine effort in awarding the contract, to resolve the issue.  The unfortunate occurrence due to flash flood is clearly beyond the control of the Contractor and the board.	(i)Ensure that contracts were planned to achieve intended objectives.  (ii) Ensure that a proper monitoring mechanism is in place from the commencement to the completion of a contract.
iii. Under the Katana Water Supply Project a sub contract had been awarded at a contract value of Rs.67,368,370 to construct a ground water reservoir and a pump house with a capacity of 1000m3 by using contingency provisions of project. However, a sum of Rs.8,084,204 had been charged as profit margin by the main contractor when remitting funds to subcontractor through interim payment certificates submitted to the board without actively mediating in procurements activities relevant to the subcontract.	The work has been carried out through the awarded contract due to lack of funds. Therefore the contractor has charged a 12% margin as overhead.	Action should be taken to re-evaluate the contract documents in order to prevent the unnecessary payments to the contractors.
iv. A Senior internal auditor bearing employee number 2022982 had been restated on 1 March 2017 subject to the decisions of disciplinary investigations and assigned to the technical audit divisions of the board on 30 March 2017 without any duties. However, a sum of Rs. 6,637,668 had been paid to that employee as personnel emoluments including bonus for the period 31 March 2017 to 31 August 2020.	Noted.	Actions should be taken to expedite the ongoing disciplinary investigations of the employees and ensure the fully utilization of human resources.

### 3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
i. Due to delay in clearance of raw material containers from port, an amount aggregating to Rs.376.52 million had to be incurred as demurrages with regard to Polgahawela, Pothuhera, Alawwa integrated water supply project, Deduru Oya Water Supply project, Anamaduwa Water Supply Project and Kelani Right Water Supply Project Phase (ii) implemented during the year under review.	Board did not have enough funds to meet the sudden commitment as the government suspended granting custom duties.	Take necessary actions to clear the imported goods without any delay or negotiate with the contractor to delay the shipments if funds are not available.
ii. It was observed that 28 connections had been given to Housing Development Authority and the annual consumption of the year under review was 1,246,157 cubic meters which equivalent to billing income of Rs.44.52 million. However, it had not invoiced even as at 31 December 2019.	It is being currently in the investigation stage and it will be rectified.	Ensure all consumption of water is billed.
iii. When compared with the market value, an additional payment of Rs.21 million had been paid to the contractor for the construction of buildings in Deduru Oya Water Supply Project.	This refers only to an item with in the contract. Since this is a design and build contract it cannot be separated.	Take actions to negotiate with the contractors with regard to BOQ items with abnormal provisions.

### 3.3 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
i. A foreign allocation of Rs.450 million had been made for Kaluganga Phase (iii) Project, Sri Jayewardanapura Kotte Project and Kaththankudy Waste Water Disposal Project during the year under review. However, no allocation had been utilized thereon.	The consultancy agreement for the Kaluganga Phase ii Project was signed recently. The Kaththankudy and Sri Jayewardanapura Kotte projects have not yet commenced.	Ensure that projects are commenced as planned and funds allocated for projects are fully utilized.
ii. As per audit test check carried out, a slow progress was observed in relation to handling of consumer complaints especially complaints directly attributable to non-revenue	The demand could not be met in these regions due to lack of sufficient water. Further due the delay in providing approval from the RDA and PRDA the leaks	Ensure that consumer complaints are handled without delay.



- water in Matara, Hambanthota, Bandarawela, Gamapaha and central regions. could not be repaired promptly.
- iii. The management had failed to conclude the place for construction of intake of Thabuththegama Water Supply project even by June 2020 even though it had been awarded in 2014. Currently the discussions with farmers are ongoing with regard to water sharing in the Thabuththegama Project. Actions Should be taken to finalize the issues relating to water source before commencement of water supply projects.
- iv. A fraud amounting to Rs.1,145,235 committed by a meter reader in Kaluthara region during the year 2008 to 2017 had not recovered from the responsible parties even as at 31 July 2020. Action has been taken to calculate the loss and it has been informed to the Commercial Division to introduce a system to calculate the losses for such instances. This case has been referred to the Attorney General's Department for advice. Immediate actions need to be taken to introduce a proper mechanism to recover losses from employees due to forged meter reading and to update the existing administrative circulars to that effect.
- v. As per audit test check carried out regarding the fraud committed by meter readers during the year 2017 to 2019, two frauds had been committed in Monaragala Region, two frauds committed in Kaluthara and Central Region. Further, out of frauds committed in Wellawaya in Monaragala Region, the loss occurred due to rejection of bill payments by consumers had not been recovered even as at 31 January 2020. The meter reader in the Monaragala region was under contract basis and his service has been terminated. Also action to recover the loss with the advice from Attorney General's Department is in process. Actions should be taken to fill vacancies of meter readers from permanent employees and introduce a proper mechanism to recover losses accrued due to forged meter reading.
- vi. The volume of non-revenue water is gradually increasing with the increasing production of treated water which indicates that no effective efforts had been taken to reduce the non-revenue water. Accordingly, island wide non-revenue water percentage of the year 2018 had remained even in 2019 without change even though the board had planned to reduce it to 23.3 percent. The NWSDB continuous to identify and implement short term measures for the reduction of NRW in RSC levels. Action should be taken to pay more attention on reduction of Non Revenue Water and allocate sufficient budget on that. Since the O&M budget is limited, the fund allocation for NRW reduction in regions also has not being as planned which adversely effects the achievement of targets.

- vii. It was observed that in Colombo City, Galle, Kegalle, Rathnapura, Hambanthota, Bandarawela, Kandy and Trincomalee regions, the non-revenue water percentage is more than 25 percent during the year under review. Illegal connections, failure to replace existing pipe line systems that installed more than 70 years ago, mal practices of few meter readers, less attention given on consumer complaints about non-revenue water and leakages which had been identified as major contributory factors of high level of non-revenue water percentage in these regions. However, the accuracy of non-revenue water percentages in most of the region are in doubt due to inactive bulk water meters and improper calibration of them, unavailability of proper records, issuing of zero bills and estimated bills etc. Accordingly, it was observed that out of 1332 bulk meters in 24 regions 159 meters or 12 percent are inactive as at 31 October 2019. Hence special attention should be given to replace the inactive bulk meters and calibrate them timely.
- Observation was noted.
- Action should be taken to pay more attention on reduction of NRW regional wise and immediate actions should be taken to expedite the completion of NRW reduction projects within due dates.
- viii. No remarkable effort had been made in order to reduce non- revenue water in city of Colombo which remained as 41 percent even at the end of the year under review. Even though two major foreign funded Projects are being implemented in this connection at present, an adequate reconstruction of water mains had not been achieved.
- The main reasons for the project delay are
- Unexpected underground utilities due to non-availability of accurate maps & GIS data of other utilities.
  - Delays in permissions from other agencies.
  - Mainly, due to RDA's land acquisition, Petroleum, Ports Authority & Sathutu Uyana delays, Northern & Southern feeder mains are delaying.

- Allow for night work only with restricted working hours.
- Unexpected delay in commencement of the work.
- Difficulties in decommissioning works of the existing lines etc.

### 3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
i. Imported stocks in transit as at 31 December 2019 was amounting to Rs.876,232,735. Out of that stocks amounting to Rs.162,922,454 had remained as stocks in transit over two years without being investigated. Further, the imported stock in transits had been erroneously shown under the mobilization and other advances instead of being shown as inventory in the statement of financial position.	This account records advances paid to purchase goods. Hence it is reflected in the financial statement, in the mobilization and other advances. Once goods are received to a particular region, it is recorded as inventories.	Actions should 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.
ii. All stocks receipts and issues should be recorded in stock records prior to physical verification of stocks. However, a net debit balance aggregating to Rs.762,254,425 and net credit balances aggregating to Rs.894,694,445 in respect of stocks receipts and issues had been adjusted to the stock balance after the verification.	The stock verification starts in beginning of the November and the adjustments up to December should be adjusted accordingly.	Actions should be taken to record all stocks receipts and issues in stock records prior to physical verification of stocks.
iii. The abnormal debit balance in rechargeable works amounting to Rs.6,005,215 in north central ground water section and an abnormal credit balance in cash in transit amounting to Rs.665,580 had not been cleared even by 30 June 2020.	Once certification is completed, the relevant entries will be passed to clear the balances of rechargeable works and cash in transit balance will be corrected in 2020.	These abnormal balances in stock in transit should be investigated and cleared.

- iv. In order to construct ground water reservoir and a water tank for Kotikawatta Mulleriyawa Water Supply scheme, a land situated in Gothatuwa hospital premises had been acquired on 04 April 2001 and lease rent aggregating Rs.10,103,750 for the period 2001 to 31 December 2018 and penalty of Rs.104,500 for the period 2001 to 2009 had been paid by the board to the Kollonawa Divisional Secretary. However, no lease agreement was submitted to audit to ascertain the accuracy of the payment.
- The respective documents will be submitted. Ensure that all lease rentals are based on a valid lease agreement.

### 3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
i. Three thousand one hundred ninety two (3192) water meters spare parts which are not in usable condition and hundred and forty four (144) bulk meters spare parts with an aggregate value of Rs.8,692,053 had remained in Rathmalana workshop over two years without being used for intended purpose as at the end of the year under review.	The water meter spare parts were repaired and have been already used.	Actions should be taken to order water meters based on annual requirement.
ii. Six thousand four hundred thirty four (6434) water meters valued at Rs.54,253,067 in ten different diameters had remained in the main stores over one year without being used for intended purpose at the end of the year under review. Further, it was observed that the warranty period of certain water meters had already been expired.	Most of it comprised with the $\frac{3}{4}$ meters and out of 19,045, 4,000 is still remaining and the rest have been used for new water connections.	Actions should be taken to place orders for water meters after considering their stock control levels in future.
iii. Non-moving stocks and slow- moving stocks are remained in the stores as at 31 December 2019 amounting to Rs.547,150,801 and Rs.492,415,394 respectively. It had represent 6 and 5 per cent respectively of the total stocks of the Board.	The verification team identifies the non-moving and slow moving items at the time of the verification. Certain types of pipe fittings are imported and kept at the site office to attend any urgent works.	Actions should be taken to place orders for inventory items after considering their stock control levels in future to avoid Non-moving stocks and slow- moving stocks.

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| <p>iv. A generator with a capacity of KVA 2000 installed during the year 2007 in Katugasthota treatment plant had been repaired by incurring a sum of Rs.15 million on 28 March 2016. However, after 2 years from the repair and completing 189 hours, out of 1500 warranty hours and 05 years of warranty period as at 01 April 2019, a break down occurred and no actions had been taken to get it repaired even by 30 March 2020.</p> | <p>It was informed to the contractor, but due to the delay in spare parts the completion of repair is delayed.</p>  | <p>Actions should be taken to get repaired the broken machineries and equipment with in warranty period and ensure fully utilization of board assets.</p> |
| <p>v. Laboratories for Greater Kandy Water Supply Project had been constructed at a cost of Rs.166,993,899 in year 2016. However, it had not been fully utilized for intended purposes even as at 31 August 2020 except testing water fittings procured by the board.</p>  | <p>Board could not obtain the ISO 17025 accreditation certificate for this laboratory. Therefore, the intended purpose of establishing the laboratory is not fully achieved. However it is used for testing water fittings procured by NWSDB.</p> | <p>Immediate actions need to be taken to utilize the resources of laboratory constructed under Greater Kandy Water Supply Project.</p>                    |
| <p>vi. Two Alum pumps with a capacity of 1m<sup>3</sup> had been procured at a cost of Rs.3,895,000 (47 percent more than the engineering estimate) in April 2016 for Matale water treatment plant. However none of the above pumps had been utilized for intended purpose even as at 30 March 2020.</p>   | <p>Hence the said pumps were issued to Meewathura treatment plant.</p>  | <p>Actions should be taken to avoid the unnecessary procurements and charged the losses so accrued from responsible officers.</p>                         |

### 3.6 Delays in Projects or Capital Work

#### Audit Issue

#### Management Comment

#### Recommendation

With respect to eight foreign funded projects considerable delay was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding, low quality of PE pipes supplied by the contractor, delay in obtaining the approval from RDA etc. Details are as follows.

#### Jaffna Kilinochchi water supply & Sanitation Project

The delay in obtaining the approval from RDA, Irrigation Dept. etc. and poor performance by the contractors, the project completion was delayed.

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.

#### Kandy City Wastewater Management Project

- Delay in Procurement Process, contractor's delays in

Project	Estimated Cost (Rs. Mn)	Date of Commencement	Date of Completion	Period of Extension	Delay as at 31 Dec. 2019 (Days)
Dry Zone Water Supply and Sanitation Project	19,165	13/11/2009	31/12/2016	31/12/2016 - 31/12/2018	1095

Jaffna Kilinochchi water supply & Sanitation Project	16,475	15/02/ 2011	14/02/2017	14/02/2017 - 31/12/2020	1050
Kandy city Waste Water Managem ent Project	17,278	03/02/ 2012	30/09/2017	30/09/2017 - 31/12/2022	848
Greater Colombo Waste Water Managem ent Project	1731.70	18/12/ 2009	31/12/2014	31/12/2014 - 31/12/2017	1825
Greater Colombo Water and Waste Water Improveme nt Investment programme (i)	14,784	25/09/ 2013	31/12/2016	31/12/2016 - 31/12/2020	1095
Greater Colombo Water and Waste Water Improveme nt Investment programme (ii)	13,917	03/09/ 2014	30/06/2019	30/06/2019 - 31/12/2020	184
Global Partnership on output Based Aid Project	13,000	31/12/ 2011	31/12/2015	31/12/2015 - 31/03/2019	1460
Anuradh ura North Water Supply Project (Stage 01)	11,515	02/2013	02/2018	02/2018 - 30/04/2020	671

Design, Supply of materials and Construction, revisions in designs, intervention of various institutions and unforeseen reasons, unfavorable climatic conditions, forced strikes, civil unrest in the country, and terrorist attacks all contributed to the project's progress.

**Greater Colombo Water and Waste Water Management Improvement Programme 01 & Programme 02**

The main reasons for the delays are

- Unexpected underground utilities due to non-availability of accurate maps & GIS data of other utilities.
- Delays in permissions from other agencies such as CMC, CEB, RDA, SL Police, SLLRDC, SLPA, SL Petroleum Corp., etc.
- Referring the approval to the other utilities specially CEB.
- Mainly, due to RDA's land acquisition, Petroleum, Ports Authority & Sathutu Uyana delays, Northern & Southern feeder mains are delaying.

- Allow for night work only with restricted working hours.
- Unexpected delay in commencement of the work.

Difficulties in decommissioning works of the existing lines.

**Global Partnership on output Based Aid Project.**

Delay in calling tenders due to delay in recommending the Tender Document and delay in decision on the scope of projects. In addition to that difficulties in transporting the raw material, supervising the construction and transporting the machinery, difficulties in design and selection of beneficiaries.

**3.7 Defects in Contract Administration**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>i. <b><u>3.7.1 Greater Colombo Water and Waste water Management Investment Programme – Project 01 and Project 02</u></b></p> <p>The following observations are made.</p> <p>(a) The project 01 commenced its activities on 25 September 2013 and schedule to be completed on 31 December 2016. However, due to poor performance of the contractor, time extension had been given in two occasions up to 31 December 2020. According to the progress report of the programme, the overall</p>	<p><b>(a) <u>Project 01</u></b></p> <p>The main reasons for the delays are ;</p> <ul style="list-style-type: none"> <li>• Unexpected underground utilities due to non-availability of accurate maps &amp; GIS data of other utilities.</li> </ul>	<p>(i) Actions should be taken to expedite the project’s works so as to complete the project with in contract period.</p>

physical & financial progress as at the end of the year under review had remained at 75.22 percent and 84.12 percent respectively.

- Delays in permissions from other agencies such as CMC, CEB, RDA, SL Police, SLLRDC, SLPA, SL Petroleum Corp., etc.
- Referring the approval to the other utilities specially CEB.
- Mainly, due to RDA's land acquisition, Petroleum, Ports Authority & Sathutu Uyana delays, Northern & Southern feeder mains are delaying.
- Allow for night work only with restricted working hours.
- Unexpected delay in commencement of the work.
- Difficulties in decommissioning works of the existing lines.

(ii) Ensure strict compliance with the provisions in the contract agreement.

#### **(b) Project 02**

(b) The Project period of the programme Project -02 had been expired on 30 June 2019. Subsequently the project period had been extended up to 15 October 2022. The overall physical and financial progress of the Project had remained at 46.65 percent and 52.11 percent respectively as at 31 December 2019 due to slow progress of the activities implemented by the Project.

To mitigate the poor performance of the contractor, discussions were conducted with the contractor and (instructions were given accordingly).

(c) Contract for System Rehabilitation for Non-Revenue Water in Northern, Eastern, Western and south parts shows slow physical progress in terms of pipe laying and pressure testing, number of houses had connections given.

(c) The revised progress had been given.



ii. **3.7.2 Ambathale Energy Saving Project**

The following observations are made.

(a)The project had commenced its activities on 29 September 2014 and scheduled to be completed by 30 June 2019. However, the project had been failed to achieve the target within the scheduled Project period and the project period had been extended up to 31 May 2022. According to the progress reports of the Project, the overall physical progress as at 31 December 2019 and 31 May 2020 were 23.08 percent and 26.31 percent respectively. Further, out of five major components of the project, the contracts for the construction of Gothatuwa 15,000 m<sup>3</sup> reservoir and booster pump station with supply and laying of 5 km, 1200 mm DI pipes (ICB 03) have not been awarded even up to 31 July 2020.

Reasons for delay in project activities.

**Design Review & Construction, Supervision Consultancy contract**

The International and Local Key Experts has not been mobilized as per the original Schedule due to delays of Construction contract packages.

**Supplying and laying 9 km dia. 1200 mm DI pipes from Ambathale to Ellie House Reservoir.**

- The outstanding payments with VAT was delayed due to non-availability of budgetary allocations.
- The Contractor recommenced pipe laying works on 25 November 2019.
- The works were suspended due to the Covid-19 on 18 March 2020 and restarted on 06 May 2020.

**Construction of Gothatuwa 15,000 m<sup>3</sup> Reservoir and Booster Pump Station with supply and laying of 5 Km, 1200 mm DI Pipes**

- After the mutual termination and settlement payment, Contractor has withdrawn the Court case and NWSDB start the procurement process to award the Contract to second lowest bidder.
- Due to delay in procurement process the Contract was awarded on 04 August 2020.

**Reliability enhancement and energy saving of Ambatale Production Facilities**

- The advance payment was delayed by 2 months due to year end vacation of AFD.

(i) Actions should be taken to expedite the project's works so as to complete the project within contract period.

(ii) Ensure strict compliance with the provisions in the contract agreement.

(iii) Actions need to be taken to complete the project activities as per programme.

(iv) Ensure accuracy of cost of projects taking in to accounts.

- Due to the poor performance of the Contractor, the progress is very less.
- Contract was affected due to Covid-19 pandemic.

**Supply of Equipment & Machineries to Western Production, NWS&DB**

- Tender for Lot C was recalled, but no offers were received and Contract of Lot F was terminated and performance bond was encashed.

(b)The contract for supply and laying of 9 km (DI 1200) accessories from Ambathale to Ellie House reservoir had been recommenced in November 2019 after termination of first contract. However, according to the progress report of the contract, the overall physical and financial progress of the contract as at 31 December 2019 was 26.08 percent and 48.64 percent respectively. Further, out of total 9000 meters of laying only 1,338.35 meters which equivalent to 14.87 percent had been laid as at 31 December 2019 and as at 31 July 2020 it was 3347.92 meters. Out of 3347.92 meters of permanent road reinstatement laying only 1019 meters of laying had been completed and the pressure testing of the completed laying works had not been carried out even up to 31 July 2020.

(b)Generally permanent road reinstatement is done after the pressure testing. But Contractor had to do permanent road reinstatement of few sections due to the public issues, raised by the road users and RDA.

The pipe laying was done by two teams in two sections, but none of those sections were completed due to unexpected site conditions.

(c)The contract for reliability enhancement and energy saving of Ambathale facilities for saving energy through installation of efficient pumps with appropriate capacities, reducing transmission losses through reduced friction and enhancement of other production facilities represents 45.60

(c)The initial mobilization schedule of the Consultancy service staffs have been changed to suit with the requirement of the Construction Contract Packages implementation in accordance with the different awarding dates. Therefore, the extension of time was granted for one-year period

percent weightage of the total project. However, the contract had been awarded on 13 September 2018 after a lapse of 04 years from the date of commencement of the activities of the project. As per the progress report of the contract, out of the target physical progress of 83.96 percent only 21.24 percent had been achieved as at 31 December 2019.

up to 31 May 2020 using saving of the Consultancy Contract.

- (d) The new contract for the construction of Gothatuwa reservoir and booster pump station with supplying and laying of 5 Km, 1200 mm DI pipes had not been awarded to second lowest bidder even up to 31 July 2020 and the acquisition of proposed land of IDH hospital for the construction of water reservoir and booster pump station under this contract had not been finalized since 2013. As a result, it has been proposed to shift the aforesaid constructions from IDH premises to Ambathale premises since the management of the IDH hospital had been objected to release the Land to the board. Therefore, the audit observed that there may be delay in completing the construction before the closing date of the AFD credit facility of 31 January 2022.
- (d) Due to the mutual termination process of ICB 03 Contract, NWSDB was unable to fulfil the commitment of Construction of 06 Nos. quarters for IDH Hospital. Finally, the IDH Management refused to release the land for the above purpose due to Covid-19 pandemic and other health issues. The awarding of ICB 03 Contract to 2<sup>nd</sup> lowest bidder on 04 August 2020 was delayed due to the Covid 19 Pandemic.
- (e) A sum of Rs.402.8 million would have been paid(without VAT) to the Road Development Authority and Provincial Road Development Authority for overlaying the carpet after completion of the pipe laying works of 13691 meters. However, only 588 meters pipe laying works had been completed as at end of the year under review and Rs.402.8 million had been brought to account as the total cost of works done as at that date.
- (e) This payment was made from GOSL fund which was not a part of awarded Contract sum. However, this amount is a cost for the project and not indicated in the physical progress.

(iii) **3.7.3 Sanitation and Hygiene Initiative for Towns Project (Phase – 01)**

The objectives of the Project are to extend wastewater collection and treatment systems and improve access to sanitation services for 73,000 people, facilitate access to the service for disadvantaged households through the development of pro-poor policies and strategies and preserve the coastal and marine ecosystems, and maintain biodiversity.

The following observations are made in this regard.

(a) The Project commenced its activities on 01 June 2016 and scheduled to be completed by 30 June 2022. However, as at 31 December 2019 the overall physical progress had remained at 4.05 percent.

(b) The Sewerage Management Skills Development Consultancy (SMSDC) contract had not been awarded even up to 30 June 2020, due to delay in preparation of bidding documents of the contract by the consultants of policy and Institutional Enhancement Consultancy (PIEC) contract.

(c) Other two contracts namely construction of collection system with pump houses for Negombo waste water management system and design and construction of waste water treatment plant in Negombo also expected to be completed during the period of the Project. However, those contracts had not awarded even up to 30 June 2020.

(i) Actions should be taken to expedite the project's works so as to complete the project within contract period.

(ii) Action need to be taken to award the sub contracts with stipulated time period in order to avoid unnecessary delays.

(a) There was an Initial procurement delay in the award of Design and Supervision Consultancy (DSC) contract. The detailed design works delayed due to consultants' demobilization, banning of drone surveys, travel bans imposed by several countries and the security issue with April 21<sup>st</sup>, 2019 incident, the prevailing COVID-19 pandemic and issues in land acquisition. Land acquisition process is still ongoing and delays due to strong public protests and owners' objections.

(b) Delay in awarding the PIEC contract due to initial procurement delay contributed to delay in commencing works of SMSDC.

(c) Initial delay due to delay in procurement of Design and Supervision Consultancy (DSC) contract and accordingly, works contracts were scheduled to be awarded in November 2020. Consultant is supposed to complete the bidding document before the end of 2020.

iv. **3.7.4. Kundasale Haragama Water Supply Project**

The following observations are made.

(a) The procurement activities related to the project had been commenced during the year 2011 and to sign the contract agreement and the financing agreement, it had taken four years and five years respectively. However, due to the financial incapability of the contractor and failure to submit advance bond and performance bond, the contract had been terminated on March 2016.

(b) The contract had been initially awarded in 2016 and it had been terminated. However, due to inefficient procurement procedure, it had been taken another three years to award the new contract again in June 2019 and it had been awarded without obtaining the concurrence of the Attorney General.

v. **3.7.5. Greater Colombo Water Rehabilitation Project.**

The objectives of the Project are to rehabilitate and enhance the water supply in the city of Colombo and Kotikawatta – Mulleriyawa area by constructing a new office building complex and a new reservoir at Maligakanda, constructing a reservoir at Elie House, improving water supply system at Kotikawatta and Mulleriyawa and providing water connections in selected tenant gardens in Colombo.

The following observations are made in this regard.

(a) The Project commenced its activities on 27 November 2007 and scheduled to be completed by January 2012. Subsequently, the period of the Project had been extended up to 20

(a) Due to financial incapability, the contractor was terminated.

(b) After a lengthy Technical and Financial evaluations and negotiations, the contract was awarded on 14th June, 2019 with the approval of Cabinet on 28th May, 2019. Later, contract agreement was signed on 14th October, 2019 subjected to AG's Department Concurrence.

(a) The amendments to the said contracts submitted to the Japan International Cooperation Agency For concurrence and approval, by the project director

(i) New contract should be awarded for terminated contract without delay.

(ii) Action should be taken to get the concurrence of the Attorney General, before signing the contract agreement whenever necessary.

(i) Actions should be taken to expedite the project's works so as to complete the project within contract period.

(ii) Action should be taken to avoid unauthorized transactions.

(iii) Ensure that comply with the provisions in the contract agreement.

June 2017, due to delays in completion of the activities of the Project. Further, it was observed that a sum of Rs.346.59 million had been transferred to an account of the contractor in 2015 after being closure of the Loan on 20 June 2015 to meet the cost on completion of balance works of the construction. However, the approval from the External Resource Department had not been obtained thereon.

(b) Two office buildings which were not included in the initial work plans had been constructed by the Project at a cost of Rs. 180.41 million in Kolonnawa and Maligakanda and the lease rentals aggregating Rs.5.17 million paid to the Divisional Secretariat of Kolonnawa up to 31 December 2018 without entering into a lease agreement. Further it was observed that the respective buildings had been allowed to use for the staff of the Colombo Municipal Council since 2015.

(c) It had been planned to construct water pump in Ambathale (cost had not been given in bill of quantity) and ground water reservoir in Gothatuwa at a cost of Rs.258.10 million in order to improve the water supply in

through External Resource Department and through the line Ministry. JICA concurred it through External Resources Department.

Japan International Cooperation Agency transferred relevant Advance Funds to the contractors given Official Account on submission of unconditional bank Guarantees.

(b) Kolonnawa land lease agreement is processed by land division of the NWSDB with coordination of the Divisional Secretary of Kolonnawa.

Construction of office building in kolonnawa was not included in the initial work plan of the project. But subsequently on requirement the NWSDB signed Contract Agreement and obtained concurrence of JICA through External Resource Department through line Ministry.

Lease agreement for Maligakanda land available from the year 2009. And payment of LKR 151 million had done as per the condition of lease agreement. As per the condition of lease agreement Part of the Building had been allowed to use for the staff of the Colombo Municipal Council.

(c) Although it had been planned to construct Pump House and Ground water sump at Gothatuwa, the new technology of Variable Speed Drives arrangement we were able to

(iv) Actions should be taken to complete the project activities as per programme.

(v) Lease rentals for the lands should be paid based on a valid lease agreement.

(vi) For the lease hold lands a proper lease agreements should be entered in to.

Kotikawatta and Mulleriyawa. However it had not been done so.

save the cost of the construction of the Ground water sump and the pump house.

vi. **3.7.6.Kandy City Waste Water Managent Project**

The objectives of the Project is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas and thereby enhance the standard of living, health and well-being of the people in the area.

The following observations are made in this regard.

(a)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.

(b)The contract on providing of sanitary facilities for low income groups had been completed on 21 March 2018 and defect liability period was ended on 21 March 2019. However, the contractor had not attended for the rectification works highlighted by the Project even up to 30 August 2019.

(c)The Project had commenced construction of Pump Houses in Deiyannewela , the premises at Aloka Hospital and Mahanama Primary School in Kandy without getting transferred the title deeds of the respective lands.

Project was delayed by 1,470 days from June 2017 to July 2021 due to

- Delays in procurement process.
- Contractor’s delays in Design, Supply of materials and Construction
- Delays due to revisions in designs
- Delays due to intervention of various institutions and unforeseen reasons
- Delays caused by particularly unfavorable climatic conditions etc.

(i) Actions should be taken to expedite the project’s works so as to complete the project within contract period.

(ii) Ensure that comply with the provisions in the contract agreement.

(iii)Actions need to be taken to complete the project activities as per programme.

(b) The Contractor could not attend defect even though Defects Notification Period extended. Hence, an estimate was taken from Kandy Municipal Council for Rs.1,881,655 to cover all defects and warranties. The Contractor’s Performance Bond valued Rs.5,095,377.76 was encashed and estimated amount was paid to Kandy Municipal Council .

(iv)Proposed lands should be acquired before commencement of the constructions.

(c) Resolving land matters take more time.

vii. **3.7.7. Giridara Water Supply Project**

The following observations are made.

(a) The Project had been commenced its activities on 15 February 2019 in order to provide drinking water for 20,000 population in Dompe Divisional secretariat and scheduled to be completed by 14 February 2020. However, due to poor financial performance of the contractor and inability to deploy required labour and equipment, the project period had been extended up to 14 August 2020. However, the physical progress as at 31 July 2020 was only 31 percent.

(b) Due to inefficient procurement process it had been taken nearly four (04) years for calling expression of interest from bidders and awarding contract to the selected bidder. Further, the engineering estimate of Rs.585.95 million prepared when calling expression of interest in February 2014 had been increased up to Rs.875.3 million without any justifiable reason at the time of recalling the tender.

(c) Even though the contract had been awarded to the selected bidder for contract sum of Rs.513.28 million that is 29.71 percent less than the engineering estimate, no rate analysis had been obtain from the contractor to prove to the satisfaction of the TEC, how the bidder intends to procure such items, Works and Services as per the quoted rates as per section 7.9.11 (a) of the Government Procurement Guideline.

(d) Eventhough Hannwella Bridge had been identified as tapping point to get water supply from Kalatuwawa Water

(a) Contract has now been extended up to 04<sup>th</sup> November 2020 and contractor has been informed to improve progress. But due to some reasons progress is still low at 32 percent.

(b) Due to the changes in scope of work and source, procurement process was delayed.

(c) Noted

(d) This matter was discussed on 08th September 2020 with Director/ Engineering Services - RDA and

(i) Actions should be taken to expedite the project's works so as to complete the project with in contract period.

(ii) 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.

(iii) Actions should be taken to expedite the procurement process in order to achieve the project objectives on time.

(iv) Actions should be taken to obtain required permissions from other institutions as soon as possible in order to complete the project with in the period.

(v) Ensure strict compliance with the Government Procurement



Supply Scheme, no approval had been obtain from Road Development authority even by 16 January 2020 for pipe laying through the bridge.

he informed that the bridge repair which is done by the SD&CC is delayed due to Covid-19 situation and river water level conditions being varied time to time and work is still not complete.

Guideline, FIDIC Guidelines, and conditions of the contract.

(d) The board had supplied 3996 meters of 160 mm dia pipes to the contractor with a value of Rs.7,736,256 on credit basis even when an advance of Rs.74.43 million had been paid to him. However the contractor had failed to settle Rs.4,832,256 worth of pipes even by 16 January 2020.

(e) As it would take further few months to purchase pipes using mobilization advances, the contractor requested some pipes and other material, on-loan basis to commence the work urgently and these were issued to the contractor with the approval of the General Manager.

(vi) Past performance of the contractors should be taken as a criteria for evaluation before awarding the contract.

(f) At audit test check carried out, it was observed that at the time of awarding the contract to the selected contractor, he had failed to complete other two contracts for supplying and laying of pipes under Pibidemu Polonnaruwa Development Programme in Polonnaruwa district and the contract for construction of 9000m<sup>3</sup> capacity water treatment plant for Medirigiriya water supply project-phase (iii) awarded to him at the agreed time period. However it had not taken for consideration when awarding this contract to the same contractor.

(f) Disqualification of the contractor based on the post evaluation is challengeable by the contractor. Hence it may lead to legal actions being taken against the NWSDB.

viii. **3.7.8 Colombo District Town East Water Supply Project – Package 01 and 03**

The Project had been commenced in order to provide water supply by laying distribution main covering 176 Km in Padukka, Seethawaka, Horana and Homagama Divisional Secretariat and laying transmission main for 4 kilometers. The following observations are made in this regard.

(i) Ensure that comply with the provisions in the contract agreement.

(ii) Actions need to be taken to complete the project within contract period.

- (a) Contrary to the bill of quantity (BOQ) of the project, an excess payment of Rs.732.07 million had been paid for temporary road reinstatement of road shoulders of Pradeshiya Sabha road in package 1 and 3 of the above project for 267,188 meters due to usage of excavated soil for backfilling purposes.
- (a) It is not compulsory to use imported soil for temporary reinstatement. Temporary reinstatement as per the contract could be carried out either using excavated soil or imported soil. It is not mandatory to use imported soil.
- (iii) Avoid abnormal rates is being paid to the contractors at the of evaluation stage of the projects.
- (b) As compared with the rate of National Water Supply & Drainage board prevailed during the year 2018, an excess payment of Rs.79.79 million had been paid for 10,000 water meters imported for package (iii).
- (b) The contract was awarded with the evaluation done by TEC and with the recommendation of SCAPC. The Project staff has no authority to revise the BOQ rates for the water meters during the implementation.
- (c) Even though brass union is being supplied as a part of the water meter, it had been separately included in the bill of quantity. And hence a separate payment of Rs.25.32 million had been done for package (i) and (iii) for supplying of brass unions.
- (c) The BOQ provides separate items for water meters and the Brass unions. It is a practice in the NWSDB that when the water meters are purchased along with brass unions as a single unit, the supply item is provided in detail to include water meters and connecting parts.

However in the case of BOQs of Package 01 and Package 03, description is not provided and the water meters and brass unions were provided as separate items.

Accordingly, approval was granted for the supply of service connection material as per the quantities provided in the BOQ and payment was also made separately for water meters and brass unions through different IPCs in both contracts.

### 3.8 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
<p>i. Contrary to the provisions in Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, nineteen (19) employees had been released to the Line Ministry by 31 December 2019 and the Board had paid Rs.22,025,414 during the year on behalf of 18 employees of them. Accordingly, a sum of Rs.168,449,077 is to be reimbursed by the Ministry of Water Supply for employees released from the board from December 2015 to 31 December 2019.</p>	<p>When requests are made by the Secretary of the Ministry to release staff for urgent technical and other functions they are being released to the Ministry on temporarily basis. However the Ministry has informed that they do not have the required budgetary provisions to reimburse the said salaries.</p>	<p>Ensure that comply with the Public Enterprises Circular No. PED/12 of 02 June 2003 regarding releasing of resources to other organizations.</p>
<p>ii. Further Seven (07) motor vehicles were also released to the Line Ministry during the period of January to November 2019 and Rs.379,125 had been incurred for repairs, license and insurance of those vehicles.</p>	<p>Only three vehicles are being released to the Ministry as at 31.12.2019</p>	<p>Ensure that comply with the Public Enterprises Circular No. PED/12 of 02 June 2003 regarding releasing of resources to other organizations.</p>

### 3.9 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>i. The Board had not taken actions to fill 969 vacancies including strategic level posts such as Additional General Manager (Corporate Service) and Deputy General Managers, the main operational level posts such as the Managers, Engineer (Mechanical), Engineer (Electrical), Engineer (Civil), Middle Level Technical (ML- T) Clerical and Allied Categories, Other Skilled Grade etc. even as at the end of the year under review.</p>	<p>Due to automation of some works, hiring employees under man power contracts, injunction orders, as a cost control mechanism and efficient utilization of existing staff are the reasons the vacancies were not filled.</p>	<p>Recruit adequate staff to the Board.</p>
<p>ii. Action had not been taken to obtain the approval for Scheme of Recruitment and Promotions from the Department of</p>	<p>A committee is appointed to review and the action is still in progress.</p>	<p>Actions should be taken to get the approval for SOR</p>

Management services, as specified in the Management Services Department's Circular No 30 dated 22 September 2006.

from Department of Management Services.

- iii. Seventy (70) employees outsourced from outside institutions in Monaragala and Matara manager offices and Regional Support Centre (South) as labours had been deployed as meter readers, pump operators, clerk etc. Due to the essential tasks they are being outsourced from the said institutions. Action need to be taken to avoid appointing labors hired under service contract agreements to the responsible posts in the board.
- iv. Sociologist, Civil engineer assistant and a plant operator had also been recruited on contract basis at the end of the year under review. Such recruitments could be executed within the approved cadre. Higher and middle management level positions should be filled with permanent staff.
- v. Total cost per employee for the past five years are as follows. Noted. Action should be taken to control the staff cost as much as possible.

Year	Total No. of Employees	Total Employee Cost Rs.Million	Cost per pe employee Rs.Million
2015	10245	10,684.59	1.04
2016	10352	11,412.87	1.10
2017	10338	11,575.10	1.12
2018	10022	12,863.07	1.28
2019	10104	12862.19	1.27

Accordingly it was observed that cost per employee had been gradually increased during 2015 to 2018.

#### 4. Accountability and Good Governance

##### 4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
i. Fourteen (14) vacancies are existed in the Internal Audit Section including Deputy General Manager, Assistant General Manager, five (5) chief	The recruitment of Chief Internal Auditors is pending due to an ongoing legal case. The other two posts of Deputy General Manager and Assistant General	Adequate internal audit staff need to be recruited especially key positions such

internal auditors and an engineer. Manager will be recruited in the due course. However, actions had not been taken to fill those vacancies even as at 31 July 2020. as Deputy General Manager and Assistant General manager should be filled with suitably qualified officers without delay.

ii. Even though a large number of water supply and sanitation services projects which use local and foreign funds are carrying out by the Board, adequate number of staff had not attached to the technical audit section of the Board. It is planned to restructure this section in the due course. Adequate number of audit staff need to be recruited to the technical audit section of the Board.

iii. Only one Internal Auditor had been appointed for the Development Projects which are funded by foreign financing. An Internal auditor is currently assigned to audit the foreign funded projects and the other staffs are assigned on rotation basis. Ensure that comply with the Management Audit Circulars. According to the Management Audit Department circular No: 02/2016 dated 10/06/2016, NWS&DB has requested approval from the Management Services Department to recruit Internal Auditors for foreign funded projects. The Management Services Department has not given the approval for the above to date.

**4.2 Budgetary Control**

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
Significant variances were observed in budgeted and actual expenditure and income on other operating expenses, finance cost and finance income ranging from 14 percent to 9325 percent for the year under review that indicating that the budget had not been made use as an effective instrument of management control.	The Budget for the year 2019 has been prepared for loss of Rs.2,428,963,000. But the actual loss amounts to Rs.1,176,834,646	Actions need to be taken to mitigate the significant variances.

### 4.3 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
<p>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 2019.</p>	<p>Ministry of Water Supply circular on this, dated 02.07.2019, was forwarded to all Addl.GMs on 12.07.2019 to incorporate relevant activities in to the future Operational and Development plans and relevant budgets to achieve the set targets therein.</p> <p>NWSDB also held several discussions under the leadership of the Ministry, with the Department of Census &amp; Statistics regarding development of the questionnaire for data collection for this purpose, during the year 2018 &amp; 2019.</p>	<p>(i) Actions should be taken to identify the other goals coming under the scope of SDG, targets, statistical data and milestones in achieving the targets relating thereto as well as evaluating the performance.</p> <p>(ii) Actions need to be taken to issue internal circulars or Guidelines in respect of implementation of Sustainable Development Goals.</p> <p>(iii) Action need to be taken to follow a methodology for disaggregating data representing all parties in respect of indices relevant to the board.</p>
<p>In additions to that no methodology had been followed for disaggregating data representing all parties in respect of indices relevant to the board even by 31 March 2020.</p>		