

# NATIONAL WATER SUPPLY & DRAINAGE BOARD

## Notes to the Financial Statements

---

### 1. Corporate Information

#### 1.1 General

National Water Supply & Drainage Board is a statutory board enacted by the Parliament under the National Water Supply & Drainage Board Law No. 2 of 1974. The registered office of the Board is located at Galle Road, Ratmalana, and the principal place of business is situated at the same location.

National Water Supply & Drainage Board is an institution that is under the purview of Ministry of Water Supply & Drainage

#### 1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Board was to be produce and sell treated drinking water to the community.

#### 1.3 Number of Employees

The number of permanent and contract employees, as at the end of the year were 9368. The number consists of those who were paid salaries as at 31 December 2011.

### 2. Summary of Significant Accounting Policies

#### 2.1 General Accounting Policies

##### 2.1.1 Statement of Compliance

The Financial Statements of NWSDB have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), adopted by the Institute of Chartered Accountants of Sri Lanka.

##### 2.1.2 Basis of Preparation

The financial statements are presented in Sri Lankan Rupees and prepared on the historical cost basis and the accounting policies are consistent with those used in the previous years.

The Board of Directors has made an assessment of the ability of NWSDB to continue as a going concern in the foreseeable future.

### **2.1.3 Event after the Balance Sheet Date (SLAS 12)**

All material events occurring after the Balance Sheet date have been considered and where necessary adjustments made in these financial statements.

Two frauds were reported during the year 2006 at two regional offices of NWSDB. According to the investigations so far carried out frauds amounting to Rs. 56.49 million and Rs. 171.94 million were reported at Kelaniya and Trincomalee Regional Offices. Legal action has been instituted against above frauds and investigations are in progress.

## **2.2 Valuation of Assets and their Measurement Bases**

### **2.2.1 Property, Plant & Equipment (SLAS 18)**

#### **i. Cost**

Cost of Property, Plant & Equipment is the cost of acquisition or construction together with any expenses incurred in bringing the assets to its work in condition for its intended use. Where an item comprises major components having different useful lives, they are accounted for as separate items of property, plant & equipment. This accounting treatment covers the grant-funded project and other projects too.

#### **a. Assets as at 31<sup>st</sup> December 2007 are revalued by the Valuation Department.**

Valuation arrived for Lands are "Fair Value" as stated in the SLAS. Methodology adopted to value Plant and Machinery, Furniture and Fittings, Building, structure and Infrastructure is "Cost Approach". Certain plant and machinery such as electricity, water supply to buildings, air conditioners, ventilators and lift etc. are valued along with buildings.

Valuation is on the assumption that the entity is a going concern. Revaluation loss of Rs. 3,684,342,399 is charged to Profit & Loss account for the year 2010 and Rs. 474,261,491 for the year 2011.

#### **ii. Leasehold Assets (SLAS 19)**

Leasehold land is amortized over the period of lease and the amortized amount is charged to Income statement for the relevant period.

The Board has purchased 08 No. of motor vehicles under the finance lease agreement. Assets and liabilities on that transaction have been declared according to the SLAS 19.

### iii. Subsequent Expenditure Incurred on Assets

Expenditure incurred to replace the component of an item of property, plant & equipment that is accounted for separately, incurring major inspection and overall expenditure. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant & equipment. All other expenditure is recognized in the Income Statement as an expense as included.

### iv. Restoration Costs

Expenditure incurred on repairs and maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from originally assessed standards of performance is recognized as an expense when incurred.

### v. Depreciation (SLAS 8)

The provision of depreciation is calculated by using a straight line method on the cost of all Property, Plant & Equipment other than freehold land, in order to write off such amounts over the estimated useful lives by equal installments. The principal rates used are as follows:

Infrastructure	-	2%
Buildings	-	2%
Structures	-	1.67%
Treatment Plant Equipment	-	5%
Transmission Plant Equipment	-	1.67%
Survey Equipment	-	10%
Laboratory Equipment	-	10%
Furniture, Fittings & Other Equipments	-	10%
Passenger Vehicles	-	14.3%
Heavy Vehicles	-	10%
Service & Bulk Meters	-	10%

No depreciation has been provided on freehold land. Depreciation is calculated on the basis, where no depreciation is calculated for the year of purchase and full provision was done for the year of disposal.

### vi. Rehabilitation Costs

Expenditure incurred on augmentation and rehabilitation of property, Plant & Equipment in order to enhance the future economic benefits expected from originally assessed standards of performance is recognized as capital expenditure.

### vii. Government Grants (SLAS 24)

These grants are used to build up assets. Amount of Depreciation of the assets is charged to relevant Grant accounts on systematic basis over the useful lives of the related assets.

### **2.2.2 Inventories (SLAS 5)**

Inventories mainly consist of materials that are held for use in the production of water and materials that are required to maintain water supply schemes. The inventories are shown at cost and cost is arrived by using weighted average method.

### **2.2.3 Trade and Other Receivables (SLAS 15)**

Trade receivables are stated at the amounts they are estimated to realize net of provisions for bad and doubtful debts. Other receivables and dues from Related Parties are recognized at cost less provision for bad and doubtful receivables. The allowance for bad and doubtful debts is based on specific debtors who are considered as non-recoverable.

### **2.2.4 Cash and Cash Equivalents (SLAS 9)**

Cash and Cash equivalents are defined as cash in hand, cash in transit and current account balances in banks.

## **2.3 Investments (SLAS 22)**

Investments are stated at cost of acquisition. Income is recognized on accrual basis for interest/yield deriving investments and to the extent of distribution from dividend bearing investments.

### **(a) Long Term Investment**

Long Term Investments are the investments made in relation to more than one year period. Then investments have been disclosed as notes to the accounts number 13.

### **(b) Short Term Investment**

Short Term Investments are the investments made for short-term period for the purpose of organizational activities.

## **2.4 Liabilities and Provisions**

### **Liability**

Liabilities are classified as current liabilities on the balance sheet date are those which fall and due for within one year from the Balance Sheet Date. Non-current liabilities are those balances that fall due for payments later than one year from balance sheet date.

All known liabilities have been accounted for in preparation of financial statements.

## 2.4.1 Retirement Benefit Obligations (SLAS 16)

### a) Defined Benefit Plan - Gratuity

Provision has been made for retiring gratuity from the first year of service for all employees, in conformity with Sri Lanka Accounting Standard No. 16 (SLAS 16).

### b) Retirement Benefit Cost

However, under the payment of gratuities Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. Gratuity is defined benefit plan. The advice of an actuary has not been obtained in accounting for defined benefit plan. The resulting difference between brought forward provision at the beginning of the year and the carried forward provision at the end of a year is dealt within the income statement.

### c) Defined Contribution Plans- EPF & ETF

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective Statutes and Regulations. The Board contributes 12% and 3% of gross emoluments of employees to EPF and ETF respectively. Total contribution of the Board for the period, EPF - Rs. 456,854,704 and ETF - Rs. 114,213,676.

### d) Arbitration

In respect of integrated W.S.S for the Eastern Coastal Towns of the Ampara District - Stage II Project, five disputed are being processed through International Chamber of Commerce. The possible outcomes of those are not assessable at this stage when we prepare the accounts.

## 2.4.2 Provision

Provision is recognized in the Balance Sheet when the Board has the legal or constructive obligation as a result of past event and it is probable that an out flow of economic benefits will be required to settle the obligations.

### (a) Provision for Bad Debts

Following percentages are applied for provision of bad debts.

5%	-	Arrears over 2 - 12 months
15%	-	Stand post Arrears
	-	Disconnected Arrears
	-	Arrears over 1 year
	-	Sewerage Arrears
20%	-	CMC Debtors
25%	-	Debtors Account 219

Other than the above percentages 10% applied as general provision for water debtors.

**(b) Contingent Liabilities & Commitments**

Following cases are under litigation and the assessable liability of these are stated below.

<u>Law Case</u>	<u>Value</u>
3102 / D	500,000/-
544 / 2011	50,000/-

**(c) Irrecoverable Staff Loans**

A Provision has been increased to write off irrecoverable staff loans to employees who expire whilst in service by Rs. 3,076,610.

**2.5 Trade and Other Payables (SLAS 15)**

Trade and other payables are stated at the cost.

**2.6 Income Statement**

**2.6.1 Revenue Recognition (SLAS 29)**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Board and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of rebates. The following specific are used for the purpose of recognition of income.

**a) Sale of Water (Normal Water Sales)**

Revenue from sale of water is recognized according to the number of consumed unit within 30 days of time by the consumer, when the meters are read and when bills are processed within the system.

**b) Other operating Income**

Other operating income including new connection income is recognized on cash basis.

The revenue and expenses of the construction contracts are recognized by reference to the stage of completion of the contract activities at the balance sheet date. **(SLAS 13)**

**c) Interest Income**

Interest income is recognized as the interest/yield accrues unless the collectibles is in doubt.

**d) Dividends**

Dividend income is recognized on cash basis.

**e) Rechargeable Works**

Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by the work done of the contract.

**2.6.2 Expenditure Recognition**

- a) Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit of the year.

Repairs and renewals are charged to Income Statement in the year in which the expenditure is incurred.

**b) Borrowing Costs (SLAS 20)**

Borrowing costs are recognized as an expense in the period in which they are incurred. The borrowing costs on the fund specifically obtain for ongoing capital projects have been capitalized and included in the carrying amount of the projects.

**c) Finance cost**

The finance cost comprises interest payable on borrowings other than borrowing cost capitalized ongoing projects.

**d) Taxation**

Economic Service Charge and Income Tax paid during the year as per Inland Revenue Act No. 38 of 2000 have been charged under taxation.