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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

WSS/A/NWSDB/FA/01/2020

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

25 June 2021

The Chairman
National Water Supply and Drainage Board

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the National Water Supply and Drainage Board for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Water Supply and Drainage Board (NWSDB) ("Board") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, 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

1.2.1 Deviating from application of Sri Lanka Accounting Standards (LKAS/SLFRS)

- (a) Contrary to paragraph 32 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), an abnormal credit balance of trade receivables amounting to Rs.8,506,031 which represent the current assets had been set off against payables and identified as non-operating liabilities in the statement of financial position at the end of the year under review. Similarly a debit balance of retention received amounting to Rs.1,078,112 which represent the current liabilities had been set off against receivables and identified as non-operating assets in the statement of financial position at the end of the year under review.
- (b) Contrary to the paragraph 60 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), board had identified Non-operating assets amounting to Rs.149,681,812 which includes stocks, debtors and advances and presented it below cash and cash equivalents without considering their liquidity in to account.
- (c) Contrary to the paragraph 9 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), stocks with an aggregate value of Rs.496,204,232 which had not moved more than three years period had been recorded at its cost without assessing their net realizable values.
- (d) Contrary to the paragraph 07 of the Sri Lanka Accounting Standard on Statement of Cash flows (LKAS 07), a deposit made in a saving account amounting to Rs.1,412,440 and a deposit made in Escrow Savings Account amounting to Rs.12,887.03 million had been categorized under Financial assets and Investments instead of being shown as cash and cash equivalents.
- (e) Contrary to the Paragraph 41 and 42 of the Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08), interest income on three dollar deposits amounting to Rs.65,430,227 related to the year 2019 had been identified as income of the year under review.
- (f) 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.1,888,920,123 related to 17 categories of fixed assets still in use had not been reviewed and accounted accordingly.

- (g) Air compressor equipment purchased on 17 July 2012 and remained at Ground Water Section in Vauniya had fired on 27 September 2018. However contrary to the paragraph 7 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16) a depreciation provision of Rs.2, 221,615 had been made from 28 September 2012 to 31 October 2020. As a result profit for the year under review had been understated by Rs. 888,646 and accumulated loss at the beginning of the year had been overstated by Rs.1,332,969. Further, due to disposing this asset during the year under review, an excess profit on disposal amounting to Rs.2,221,615 had been identified in the financial statements.
- (h) 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.485,960,193 which was paid as gratuity (excluding project staff) during the year under review had been identified as provision of the year under review.
- (i) 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.13,704.8 million relating to 34 Projects which remained without being amortized over a period of 9 to 13 years had been brought to the accounts as at 31 December 2020. 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.
- (j) PVC accessories valued at Rs.3,399,965 identified during the stock verification of the year under review in Galle Manager Office had been recognized as foreign capital grants without properly identifying the source as per the paragraph 03 of the Sri Lanka

Accounting Standard on Accounting for Government Grants and Disclosure of Government Assistance (LKAS 20).

- (k) Contrary to the provisions in the Sri Lanka Accounting Standard on Investment Property (LKAS 40), the Carrying value of Investment Property amounting to Rs.333,020,680 had been shown as Property Plant & Equipment, instead of been shown as Investment Property as at 31 December 2020. Further, as per the paragraph 75 (f) (i) and 79 of the standard, income from Investment Property had not been disclosed and the Board had not made proper disclosures with regard to methods of depreciation, useful lives or rates of depreciation, the gross carrying amount and the accumulated depreciation at the beginning and end of the period and amount of impairment.
- (l) Contrary to the section 5.5 of the Sri Lanka Financial Reporting Standard on Financial Instruments (SLFRS 09), provision for impairment for sewerage debtors and other debtors had been done based on a fixed rate without identifying the expected credit loss.
- (m) In terms of the Section 53 of Sri Lanka Financial Reporting Standard on Leases (SLFRS 16), relevant disclosure requirements such as interest expense on lease liabilities, total cash outflow for leases, the carrying amount of right-of-use assets at the end of the reporting period by class of underlying assets etc. had not been made in case of lease hold lands with a book value of Rs.599.5 million as at end of the year under review.

1.2.2 Accounting Deficiencies

- (a) During the board of survey of the year 2015, it was observed that fixed assets with an aggregate value of Rs.65,852,393 in relation to 16 water supply schemes in Kurunegala Regional office were not in usable condition and remaining as fixed assets for a long period. However, no proper actions had been taken to remove them from books of accounts. Further as per calculations made by audit, it was revealed that Rs.851,398 had been made for provision for depreciation during the year under review for the 42 depreciable items valued at Rs.40,605,148.
- (b) Economic Service Charges (ESC) paid during the year 2018 amounting to Rs.133,867,477 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.

- (c) Economic Service Charge for the year of assessment 2016/2017 had been paid based on 0.25 percent even though rates had been revised to 0.5 percent with effect from 01 April 2016. As a result an assessment had been made by the Department of Inland Revenue for Rs.128.76 million including penalty. According to the records of the board Rs.66.37 million to be paid by the board (excluding penalty) due to rate changes. However no provisions had been made for the balance tax payable in the books of accounts.
- (d) In relation to twelve (12) cost centers in Ampara, Jaffna, Batticloa, Sabaragamuwa and Vauniya region, fixed assets with an aggregate value of Rs.453,636,398 could not be verified and physically not existed. However, without taking actions to remove them from books of accounts, a provision of Rs.17,171,243 had been made for depreciation during the year under review.
- (e) As per physical verification report of Ampara, Jaffna and Batticloa Regional Offices, it was observed that buildings structures , plant & equipment, mobile equipment , building free hold and bulk water meters with an aggregate value of Rs.20,829,745 in relation to seven cost centers had been damaged, removed from usage and demolished. However, without taking any actions, a provision of Rs.616,308 had been made for depreciation during the year under review.
- (f) It was observed that 196 items of fixed assets such as land free hold, infrastructure, building free hold, structures etc. which are physically existed in Batticloa, Ampara, Vauniya and east regions had not been included in fixed asset registers and the books of accounts of the board. As per the calculations made by audit provision for depreciation of Rs.102,843,910 had not been made for 74 items out of above 196 items valued at Rs.4,385,262,876. Hence profit for the year under review had been overstated by similar amount. Further, value of six (06) lands vested to Vavuniya region and ten (10) lands vested to Mannar region had not been accounted in the books of accounts even though it had been recognized as assets in the fixed assets registers.
- (g) As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2020 were Rs.8,213,888,162. However, provision for impairment had been made only for debtors (including new connection debtors) amounting to Rs.7,978,854,614. Hence no provision had been made for these debtors aggregating to Rs.235,033,548.

- (h) A sum of Rs.12,430,354 paid by the board as value added tax to the contractors for the projects had been erroneously identified as working progress instead of accounted them as vat receivables even though they have been already claimed against output vat of the board. Hence balance of working progress had been overstated and vat receivables had been understated in the financial statements by similar amount.
- (i) As per the information received, the cost of forty four (44) completed and commissioned Water Supply and Rehabilitation Projects amounting to Rs.5,246,945,547 had remained in the work-in- progress as at 31 December 2020 without being capitalized.
- (j) Out of advances received for rechargeable works, a sum of Rs.13,447,905 relating to 06 projects in Kaluthara Region, Kegalle & western central region and rechargeable ground water works of Rs. 3,997,933 relating to regional support centre (central) had been completed at the year under review. However, it had not taken to relevant income account even by 30 April 2021.
- (k) It was observed that the Board had made prior year adjustments in the financial statements of the year 2019 and 2020 pertaining to years 2017, 2018, and 2019. As a result, the retained loss as at the end of year 2019 is distorted by Rs.192.12 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.
- (l) In respect of seven (07) Projects, the balances aggregating to Rs.198,729,791 shown under the work-in-progress are remained unchanged over eleven years without being investigated in order to make necessary adjustments in the financial statements.
- (m) It was observed that a sum of Rs.8,803,047 in welfare fund had been adjusted against source of income of capital recovery charges without any reason and hence net profit for the year under review had been understated by similar amount in the statement of comprehensive income.

- (n) It was observed in audit that the balance of savings account bearing the number 200934 was Rs.54, 980,079. However as per financial statements it had been shown as Rs.53, 065,335. Hence current assets and interest income had been understated by Rs.1,914,744.
- (o) Long outstanding balances of assets and liabilities amounting to Rs.149,681,812 and Rs.71,927,749 respectively which includes other debtors, advances, trade creditors, unclaimed salaries, etc. had been identified as non-operating assets and non-operating liabilities without taken actions to clear such balances. Further, an unidentified prior year balance of Rs.95,796,513, stock balance of Rs.22,007,307 in four regions and bank balances of Rs.5,906,882 remained in the above mentioned balance as non-operating assets without taking actions to investigate and settled.
- (p) Stolen stocks in Kelaniya region five years back amounting to Rs.2,549,788 and Stock shortage of Rs.1,211,323 Western Central Regional Support centre (Kohuwala) had been included in the inventory even as at 31 December 2020. However, actions had not been taken to recover such losses from respective officers.
- (q) Due to failure of assigning of suitably qualified store keeper to Matale Regional Office under Kandy North Regional Support Centre, stock receipts and issues had not been recorded properly. As a result a stock shortage of Rs. 41,739,680 had been recorded as at end of the year under review. As a result accumulated loss at the beginning of the year had been understated by Rs.26,604,682 and profit for the year had been overstated by Rs.15,134,998 and closing stocks had been overstated by Rs.41,739,680. However no actions had been taken to identify the reasons for stock shortages and remove them from books of accounts even as at 01 April 2021.
- (r) As per the cabinet decision taken on 02 July 2020, the interest cost on loan of Rs. 30 billion obtained from National Savings bank is born by the General treasury and the board had incurred Rs.699,702,314 as interest on that loan during the year under review. However only Rs.659,277,279 had been identified as receivables from treasury in the financial statements for the year under review.
- (s) As compared with the confirmation received from banks in respect of outstanding loan balance of two (02) foreign funded projects with the balances shown in financial statements, it was observed that outstanding loan balance as per financial statements had been overstated by Rs.1,723,847,989.

- (t) 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 under provision of Rs.10,254,724 had been made at end of the year under review.
- (u) In relation to Kotte region (Battaramulla) metered sales income for the month of December 2019 amounting to Rs. 59,129,751 had also been considered as income for the year under review erroneously and hence profit for the year under review had been overstated by similar amount.
- (v) A sum of Rs.2,074,821 paid during 2016 as the environmental assessment fee of Matara Stage (iv) Project and Rs. 9,590,000 paid during 2016 and 2017 as consultancy fee for the construction of Salinity Barrier across Nilvala River had been deducted from deferred liabilities and shown under non current liabilities instead of identified as working progress of relevant projects or adjusted to the accumulated loss as recurrent expenditure.
- (w) The Balance of refundable and non refundable deposits relating to new connections amounting to Rs.81,502,527 had been transferred to the income of the year with out having any board approval. Further it was observed that an amount equivalent to Rs.42,600,938 which belongs to refundable and non refundable deposits with in one year had also included in it.
- (x) Value of other stock items amounting to Rs.16,731,847 which had not been physically verified during stock verification had been identified as inventory in the financial statements.
- (y) A sum of Rs.2,327,771 and Rs.99,121 charged as value added tax on supplies from customers for the year under review and for the proceeding year respectively in Monaragala region and head office had been erroneously accounted as income instead of shown as vat payable. Hence profit for the year under review had been overstated and the accumulated loss at the beginning of the year had been understated by similar amount.

1.2.3 Un-Reconciled Balances

- (a) Differences of Rs. 131,472,986 in trade debtors and Rs.103,560,564 in new connection debtors were observed between balances shown in the financial statements and the balances shown in the age analysis schedules submitted by the commercial division of the Board. However, trade debtors amounting to Rs.3,149,283,146 in relation to 13 regions had only been reconciled at the end of the year under review. Out of above mentioned reconciliations it was observed that opening balance difference, unidentified difference aggregating Rs. 96,700,258 and Rs.39,773,142 had not been properly investigated and settled.
- (b) An un-reconciled difference of Rs.530.38 million was observed between the value of metered sales and bulk sales shown in the reports of commercial section and the financial statements. Further an un-reconciled difference of Rs.383.42 million was observed between the value of new connection income as per the financial statements and income declared in the annual vat returns.
- (c) A difference aggregating to Rs.19,342.19 million was observed in foreign grants of Kandy City Waste Water Management Project, Deduru Oya Water Supply Project and Dry Zone Urban Water and Sanitation Project when compared financial statements of the board with the individual financial statements of the respective projects. Out of the above difference, reconciliation had been prepared only for the difference of Rs. 10,756.71 million in Kandy City waste Water Management Project and it was observed that transactions with a value of Rs. 97.08 million had not been recorded in the books of accounts of the board relating to that project.
- (d) As per the audit test check carried out, an aggregate difference of Rs.2,346.26 million 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 five (05) Foreign Funded Projects. Further when analyzing the reconciliation prepared it was observed in audit that transactions with a value of Rs1,274.81 million had not recorded in board's financial statements in relation to Thambuththegama Water Supply Project and Greater Colombo Water & Waste Water Management Improvement Investment Programme (Project iii).

- (e) An unidentified debit balances and credit balances amounting Rs.7,250,860 and Rs.33,929,517 respectively shown in the bank reconciliations from the year 2008 to 2019 in respect of twelve (12) banks accounts had not been cleared.
- (f) Based on the directions given by the Director General of Department of Public Enterprises by his letter of PE/WS/NWSDB/GEN/2015 dated 08 July 2015 and as per the Cabinet Decision taken on 04 February 2016, the outstanding loans balance amounting to Rs.88,531,428,611 had been transferred to Government Equity account with effect from year 2015. However, as per the records of the General Treasury an amount equivalent to Rs.62,415,763,525 had been identified as capital contribution to the board. Hence, it was observed that an amount equivalent to Rs.26,115,665,086 which payable by the board as foreign loans had been transferred to Government Equity without any approval.

1.2.4 Lack of Evidence for Audit

The evidences indicated against each item shown below had not been furnished to audit.

Item	Value	Evidences not Made Available
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	Rs.	
(a) New Connection Debtors	177,496,727	Detailed schedules and age analysis
(b) Other Debtors	51,690,693	Detailed schedules
(c) Non- moving & Slow-moving Stocks	1,139,127,273	Age analysis
(d) Trade Creditors	34,727,558	Detailed schedules
(e) Tax expense	133,867,482	Detailed income tax computation for the year
(f) Short Term Deposits in Other Institutions	12,779,730	Detailed schedules
(g) HDFC investment for Housing Loans	441,068	Bank Confirmations
(h) Local Bank Loans	20,713,132	Bank Confirmations

(i)	Contractor Retention	67,376,711	Detailed Schedules
(j)	Advances to Contractors	104,564,741	Detailed Schedules
(k)	Rehabilitation Tax	1,757,515	Detailed Tax Computation, Schedules
(l)	Assets taken over from Government Department	185,480,387	Detailed assets list taken over.
(m)	Accrued Expenses	110,578,062	Detailed accrued expenses schedule
(n)	Advances to Contractors (Special Projects)	11,474,470	Detailed Schedules

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 Other information included in the Board's 2020 Annual Report

The other information comprises the information included in the Board's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which I have obtained prior to the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work I have performed on the other information that I have obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard

1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends 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's 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 Board.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

- 2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.
 - 2.1.1 Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been

kept by the Board as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year final report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 except for paragraph 1.2.1(I), 1.2.1(IV), 1.2.1(VI), 1.2.1(VIII), 1.2.1(IX), 1.2.1(X), 1.2.2(I), 1.2.2(II), 1.2.2(VII), 1.2.2(IX), 1.2.2(XI), 1.2.2(XII), 1.2.2(XV) , 1.2.3(I), 1.2.3(II), 1.2.3(III), 1.2.3(IV), 1.2.3(V), 1.2.3(VI) and 1.2.4.

2.2 Based on the procedures performed and evidence obtained which limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Board has any direct or indirect interest in any contract entered into by the Board which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Board has not complied with any applicable written law, general and special directions issued by the governing body of the Board as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

Reference to Laws/Direction

Description

(a) General Manager's Circulars

(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.617,878,548 in respect of 2,713 disconnected debtors whose bill value over Rs.50,000.

- (ii) Admin/09/2018 of 26 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.230,010 from two employees in Regional Support Centre (Uva) from August 2019 to September 2020 and Rs. 4,688,010 from 19 employees in Regional Support Centre (Central) from 2019 to March 2021 had not been recovered even as at 30 April 2021 although they have occupied quarters over 5 years.
- (b Management Services Circular Approval of the Department of Management Services for) No. 30 of 22 September 2006 the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained.
- (c) Public Enterprise Department Circular No.01/2020 of 27 January 2020
- (i) Section 1.2 Two vehicles had been allocated for Chairman from February to May of the year under review.
- (ii) Section 1.4 Two vehicles had been allocated for Vice Chairman from June 2020 to January 2021.
- (iii) Section 1.5 In addition to entitled monthly fuel limit of 150 liters, a monthly fuel imprest of Rs.60,000 had been approved for Chairman and Vice Chairman of the board from January 2020 based on board decision taken on 22 July 2020 without obtaining recommendation of Secretary to Treasury.
- (d Section 3.1.4 of Public A sum of Rs.280,281 had been spent as fuel expense of) Enterprise Circular No.01/2015 Assistant General Manager in regional support center of 25 May 2015 (UVA) during January 2019 to July 2020.

- (e) Section 2 Out of the loan proceeds disbursed, a sum of 140,641,551 USD had been invested in nine (09) US dollar deposit accounts in during the year 2019 and 2020 without approval.
- Part 3.1,18.15 (c) of the Facility Agreement of Gampaha, Aththanagalla & Minuwangoda Integrated Water Supply Project and Clause 11.1 of the Escrow Agreement
- (f) Management Audit Circular No.1/2017 of 15 February 2017 Only one Internal Auditor had been appointed for the Development Projects which funded by foreign financing.
- (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.18.94 million as salaries and allowances of eighteen (17) employees who had been released to the Line Ministry by 31 December 2020. Accordingly, Ministry of Water Supply should reimburse Rs.187.39 million to the Board for the employees released from December 2015 to 31 December 2020.
- (h) Section 156(8) of Financial Regulation and Section 1.12 of Code of Ethics Of Board An unappropriated profit of Rs.706,205 had been earned by a meter reader by deploying employees under service contract basis in Bandarawela Manager Office.
- (i) Amended Value Added Tax Act of No.14 Of 2002
- (i) Section 22(6) (iv) Input vat of 48 invoices which are over one year amounting to Rs.2,224,236 had been claimed from output vat for the second, third and fourth quarters of the year 2019.
- (ii) Section 26(i) VAT payable for the 4th quarter of 2019 amounting to Rs.38,802,349 had been paid with a delay of six months and VAT returns for the first three quarters of the year

2020 had been submitted to the Department of Inland Revenue with a delay ranging from 11/2 months to three months.

- (j) Section 03 Department of Inland Revenue Circular No.CGIR/2019/3V(INS & Cir) of 09 July 2019. As per audit test check carried out, Value Added Tax amounting to Rs.501,513 had been paid during the year under review to VAT inactive suppliers.
- (k) Extraordinary Gazette Notification No.2151/52 dated November 29, 2019 published under section 2A of the Value Added Tax Act No.14 of 2002 15 percent instead of 8 percent had been charged on Ground Water Income, New Connection Income, Sewerage Income, metered sales bowser supply during the month of January in Dehiwala, Anurdadhapura and Polonnaruwa region and special project unit of the head office. Apart from that rechargeable income of head office had been charged on 15 percent instead of 8 percent during six months in 2020. And hence an additional value added tax amounting to Rs. 7,096,144 had been charged and declared.

2.2.3 to state that the Board has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Board had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018 except for;

- (a) In order to provide water supply for Jaffna Kilinochchi Region, the construction of plant for removing salt from sea water had been scheduled to be completed in 2023. Accordingly, the construction of 15 water towers at a cost of Rs.1140 million and treated water transmission pipe laying at a cost of Rs.5,536 million had been completed in 31 December 2018. However, all these constructions had remained idle due to non-availability of source of water even by the end of the year under review.

- (b) The contract for the Kundasale Haragama Water Supply Project 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 .However, the project had been suspended by the end of the year under review after incurring Rs.75.12 million, due to inefficient procurement process and commencement of the projects by the board based on improper planning and without having proper assessment of the financial stability of the board.
- (c) The contract for Walachchenei Water Supply Project had been awarded to the contractors on 22 January 2019 after eight years from the date of submitting financial proposal on 21 February 2011. Hence funds disbursed by the lending agency had not been used for 2 years and 6 months period. Subsequently the financial agreement had been cancelled and the project had been suspended.
- (d) Based on the dispute adjudication board (DAB) decision, the board had to pay Rs.44.93 million as delay charges to the contractor and Rs.1.57 million as professional charges of DAB and arbitration members respectively due to the suspension of contract payments by the committee which is appointed for the investigation of variations of Awissawella and Kosgama Integrated Water Supply Project instead of acting according to the Paragraph 3.7 of the Contract Agreement and Supplementary 14 for the Section 8.13.4 of Procurement Guideline.
- (e) Three thousand two hundred eighty four (3284) water meters spare parts which are not in usable condition with an aggregate value of Rs.7,602,006 had remained in Rathmalana warehouse over a period ranging from 3 to 7 years without being used for intended purpose as at the end of the year under review.
- (f) Three thousand five hundred and sixty eight (3568) water meters valued at Rs.43,293,308 in seven different diameters had remained in the main stores over a period ranging from 3 to 7 years 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.

- (g) The contracts for the pipe laying and construction of water towers in Nittambuwa and Gampaha area under sub contact agreement entered between the board and main contractor of Gampaha, Attanagalla and Minuwangoda integrated water supply scheme had not been awarded even after nearly 4 years of awarding of the main contract as at 31 December 2020. Further the contract for construction of water towers and laying works in pasyala which had been terminated due to poor performance of the contractor had not been awarded even by end of February 2021. Apart from that the contracts works of balance pipe laying of already awarded contracts had not also been completed even by 31 December 2020 even though the scheduled date of completion lapsed by 20 August 2020.
- (h) With respect to twelve foreign funded projects and three local bank funded projects a considerable delay ranging from 82 days to 1460 days was observed due to poor performance of the contractors, delay in land clearance, environmental and lresettlement issues, delay in contract awarding, delays in procurement process, changing the routes due to unexpected utilities present underground etc.
- (i) Contrary to 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.07 and 08 during the year under review in Matara Stage (iv) Water Supply Project.
- (j) An amount equivalent to Rs.7,653,137 had been incurred as default interest due to delay in repayment of installment by the board in respect of one foreign funded project and three local funded projects.
- (k) When compared with the market rates prevailed even during 2016, an additional payment of Rs.39.92 million had been paid to the contractor for the construction of 7 quarters in Badulla Haliella Water Supply Project due over estimated bill of quantity of the contractor.
- (l) A loss of 502,779 USD equivalents to Rs. 93 million had to be incurred by the board during 18 October 2019 to 30 October 2020 due to investing funds received on Gampaha, Attanagalle and Minuwangoda Integrated Project in US dollar deposits which paid a return of 0.6 percent less than the interest to be paid on loan.

3. Other Audit Issues

- (a) Trade debtors, new connection debtors, sewerage debtors and other debtors aggregating to Rs.1,447, million had remained over two years without being recovered. Out of above trade debtors 54 per cent represents in Colombo, Kelaniya, Kotte and Dehiwala, Colombo South and Colombo North regions.
- (b) A sum of Rs.7,357,065 in respect of 22 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.2,823,630 had remained over two years without being recovered. Further Rs.28,316,137 had remained outstanding as at the end of the year under review from 37 connections given to government institutions whose bill value is more than Rs.100,000.
- (c) Outstanding disconnected debtors as at 31 December 2020 was Rs.1,276,725,598. Out of that debtors amounting to Rs.1,088,634,725 which equivalent to 85 percent had remained outstanding over two years without being recovered.
- (d) Loans and advances given to former employees amounting to Rs.18,030,810 had remained in accounts for more than three years period. However proper actions had not been taken to recover them.
- (e) An unsettled balance of trade creditors and other creditors amounting to Rs.141,422,678 and Rs. 65,002,525 respectively remained over three (03) years were observed in 18 regions as at 31 December 2020.
- (f) No legal actions had been taken to recover the advances given to contractors for the terminated projects in Regional Support Center (Central) during the year 2003 to 2008 aggregating to Rs. 9,278,335 and advances given by the head office for the rehabilitation projects amounting to Rs.4,049,022 even by 30 April 2021. Further it was observed that advance given to contractor by the head office 08 July 2014 amounting to Rs.1,148,885 had not been recovered even by 30 April 2021.
- (g) Short term deposits aggregating to Rs.43,538,237 deposited in external institutions including Road Development Authority, Colombo Municipal Council, Provincial Road Development Authority , Rathnapura Pradeshiya Sabha and Beruwala Urban Council had remained outstanding over three years without being recovered. Further, an advance kept at line ministry amounting to Rs.4,378,828 had remained outstanding over

eight years without being recovered and due to unavailability of detailed information it could not be verified in audit.


- (h) Contractor's retention and refundable tender deposits amounting to Rs.1,144.86 million and Rs.2.61 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.
- (i) An outstanding balance of vat payable amounting to Rs.1,854,980 relating to Monaragla Region had not been investigated and settled for more than three years.
- (j) The Board had purchased a land to construct a Wastewater Treatment plant under Galle Area Wastewater Disposal Project and the Department of Valuation valued this land as Rs.71.5 million. A sum of Rs.21.25 million equivalent 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 already occupied some families by the end of the year under review. The advance paid and penalty thereon had not been recovered from the land owner or the responsible officers of the Board even as at 30 April 2021.
- (k) The board had acquired a land in 1981 in Kaluthara to construct a warehouse and employee quarters and paid Rs.531,000 in 1991 for the payment of compensation to the owners. However the land had already been occupied by some families illegally. However the legal actions to clear the owner ship had been taken after a delay of 39 years of acquisition on 21 July 2020.
- (l) Cash frauds amounting to Rs.246.64 million committed at Trincomalee, Kelaniya and Ampara regions during the year 1999 to 2006 had not recovered even as at 30 April 2021. However in relation to Trincomalee Region Rs.24.15 million had only been recorded as debtors as at the end of the year under review out of cash fraud of Rs.171.9 million. Further, another Cash fraud amounting to Rs.272,735 committed at Bandarawela Region during the year 2001 had not recovered from responsible persons even as at 31 December 2020.

- (m) As per the financial statements, the stocks in transit (local purchase) and imported stock in transit as at 31 December 2020 was Rs.60,344,917 and Rs. 1,425,133,927. Out of that stocks amounting to Rs.1,898,285 and Rs.325,687,234 had remained over one years without being investigated. Further it was observed in audit that displaced stocks of Rs.906,957 in Bandaragama OIC office, computer equipment amounting to Rs.330,000 in Polonnaruwa Region had also been identified as stock in transit without being removed them from inventory as at the end of the year under review.
- (n) Out of total production 24.63 per cent is regarded as non-revenue water at the year under review. The value of non-revenue water had been brought to the accounts as normal cost instead of being separately accounted, though it makes a significant loss to the Board due to leakage, unlawful connections, free supply and administrative inefficiencies etc. Further, the non-revenue water in Colombo city had recorded 39 percentage while Kotte, Dehiwala,Galle,Kandy,Kegalle, Bandarawela and Trincomalee regions had recorded over 25 percent during the year under review. Further Greater Colombo Water and Wastewater Management Improvement Investment Programme (Project 01 and 02) which aimed at non-revenue water reduction in Colombo city shows a slow progress due to delays in awarding contracts, lack of deploying sufficient labour and poor performance of the contractor and project monitoring unit.
- (o) It was observed that 06 connections had been given to Housing Development Authority and the annual consumption of the year under review was 439,607 cubic meters. However, it had not invoiced even as at 31 March 2021.
- (p) An abnormal debit balance in trade creditors amounting to Rs.22,217,467 in Bandarawela region had been remained in accounts more than three years while an abnormal debit balance of Rs.28,714,980 had remained in Batticloa and Galle region less than six months without investigated and settled. Further out of total creditors balance of Rs. 143,507,022 remained in Uva regional support centre, no actions had been taken with regard to the abnormal debit balance of Rs.12,820,102.
- (q) An abnormal credit balance in cash in transit remains more than one year amounting to Rs. 1,708,659 had not been cleared even by 30 April 2021.

- (r) The abnormal credit balance in stock in transit amounting to Rs.18,200,656 and Rs.50,000 in Akkareipattu Region and Matale region had not been cleared even by 01 April 2021.
- (s) An abnormal credit balance of Rs. 107,837 was observed in mobilization advance of Greater Colombo Water and Waste Water Improvement Project (Phase 03) at the end of the year under review without investigated.
- (t) Actions had not been taken to dispose the obsolete and unserviceable stocks valued at Rs. 127,794,411 even though board approval had been given to tender and dispose them on 20 August 2019.

W.P.C. Wickramaratne
Auditor General

- (r) The abnormal credit balance in stock in transit amounting to Rs.18,200,656 and Rs.50,000 in Akkareipattu Region and Matale region had not been cleared even by 01 April 2021.
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- (t) Actions had not been taken to dispose the obsolete and unserviceable stocks valued at Rs. 127,794,411 even though board approval had been given to tender and dispose them on 20 August 2019.


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