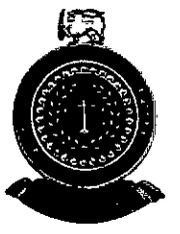




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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

WSS/A/NWSDB/01/2014

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

26 April 2016

The Chairman
National Water Supply and Drainage Board

Report of the Auditor General on the Financial Statements of the National Water Supply and Drainage Board for the year ended 31 December 2014 in terms of Section 14 (2) (c) of the Finance Act, No 38 of 1971

The audit of financial statements of the National Water Supply and Drainage Board (NWSDB) for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued to the Chairman of the Board in due cause.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.





An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Water Supply and Drainage Board (NWSDB) as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (LKAS)

The following non-adhering with Sri Lanka Accounting Standards were observed in audit.

- (a) **LKAS 1, Presentation of Financial Statements** - Although the profit for the year should be brought to the statement of changes in equity, instead of that the total comprehensive income for the year under review had been brought as retained earnings in the statement of changes in equity. As a result the Profit for the year under review had been overstated by Rs. 53.71 million and the revaluation reserves understated by similar amount in the statement of changes in equity prepared for the year under review.



(b) **LKAS 20, Accounting for Government Grants and Disclosure of Government Assistance** - The following deficiencies were observed in this connection.

- (i) Foreign grants received for Jaffna Killinochchi Water Supply Project and Improving Community Based Rural Water Supply and Sanitation Project were amounting to Rs.447.3 million and Rs. 167.6 million respectively. Nevertheless, the related work-in-progress had not been brought to the accounts of the Board.
- (ii) Foreign grant balances aggregating Rs.10,358.39 million in relation to 29 projects which remained unchanged over a period of 8 years had been brought to the accounts as at 31 December 2014 without being amortized. The impact to the financial statements due to non-amortization could not be ascertained in audit as there were no details available relevant to those foreign grants.
- (iii) Further, unallocated transactions relating to specified projects aggregating Rs. 2,457.5 million accounted for as foreign grants had not been amortized as at 31 December 2014.

The Chairman of the Board had stated in this connection that ***“The Treasury has approved to convert the outstanding loan and interest as at 31 December 2014 into Government Equity to NWSDB”***.

- (iv) The financial gain on Government loans granted at the interest rates below the market rates had not been treated as Government grants in the financial statements.

In this connection the Chairman of the Board had stated that ***“The Government is the sole shareholder of capital provider which provides loan schemes along with grants and other assistance incorporated into the loans and subsidies loans. Therefore, there are no competing organizations which provide loans based on the same conditions which the Government provides. Hence, the National Water Supply and Drainage Board could not obtain the market rate of the interest rates of the loan schemes offered by the Government.”***

- (v) The foreign grant amounting to Rs.39 million received as fixed assets had not been amortized during the year under review



2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Debit balances shown under current liabilities and income accounts aggregating Rs.47.3 million and credit balances shown under current assets and expenditure accounts aggregating Rs.24.1 million appeared to be abnormal and as such the financial results and financial position of the Board for the year under review had been distorted.
- (b) New water supply connections given on credit basis had not been accounted. However, the monthly installments amounting Rs. 14.9 million recovered from the water consumers had been only credited to the New Connection Debtor Control Account.
- (c) The sea water purification plant constructed in the year 2009 under the Project of the Design and Construction of Drinking Water Treatment Facility for Moratuwa, Panadura and Negombo using Spanish Tsunami Facility Fund costing Rs. 363 million had not been capitalized even elapsed of five years as at 31 December 2014 and as such the Property, Plant and Equipment (PPE) amounting to Rs.109,865.63 million shown in the financial statements had been understated by similar amount. It was further observed that, the facility had not been in operation since July 2010 due to problems in the intake. However, a sum of Rs. 14.8 million had been spent for the electricity, hiring of motor vehicles and service agreements for office equipment for the period of 2010 to 2014.
- (d) The stock of water pumps spare parts costing Rs. 331.86 million had been classified as non-current assets during the previous year and depreciated accordingly. Out of the depreciation charges of Rs. 47.26 million, only a sum of Rs. 11 million had been reversed during the year under review. In the meantime, the respective cost of those assets had not been reversed as prior year adjustment and as such the water pumps spare parts balance shown under PPE and accumulated depreciation as at 31 December 2014 had been overstated by Rs.331.86 million and Rs.36.26 million respectively.
- (e) Two lands, three laboratories, one structure, two bulk meters, three furniture items and five computers and other equipment which were used in six Regions had not been valued and brought to the financial statements.
- (f) Stocks valued at Rs.38.24 million received from completed foreign funded projects had not been brought to accounts.
- (g) Although 20 schemes of rechargeable works had been completed and handed over to the customers as at 31 December 2014, the un-cleared balance of Rs. 20 million was observed in Rechargeable Customer Advances Account in respect of those schemes.



- (h) Even though, the stock balance brought to the financial statements as at 31 December 2014 was 5,300.38 million, the physically verified balance as at that date was Rs.5,360.13 million. Hence, the stock balance shown in the financial statements as at 31 December 2014 was understated by Rs.59.75 million.
- (i) Even though there was a net difference of Rs.10,969.57 million observed between the work-in- progress balance shown in the financial statements and the corresponding balances shown in the individual financial statements of three foreign funded projects, it had not been reconciled. Further, the work-in- progress balance of Rs. 149,059.34 million shown in the financial statements had been understated by Rs. 650,382 due to negative balances including therein.
- (j) Two outside projects worth Rs. 129.1 which completed and handed over to the respective parties as at 31 December 2014 million and certain expenditure relating to three completed and capitalized projects costing Rs.159.1 million had remained in the work-in-progress without being cleared.
- (k) Balances aggregating Rs. 1,588 million shown under the work-in-progress in respect of 64 projects had remained unchanged over a period ranging three to seven years without being investigated in order to make necessary adjustments in the financial statements.
- (l) The cost of completed and commissioned 109 water supply projects amounting to Rs.3,667.39 million had remained in the work-in- progress as at 31 December 2014 without being capitalized.
- (m) The expenditure not related to the work-in-progress amounting to Rs. 669.1 million had been included in the work-in-progress balance of the Regional Office in Ratnapura.
- (n) Although constructions of 72 water supply schemes were completed, the debit balance of Rs.14.19 million and credit balance of Rs.13.47 million in respect of those schemes had been inappropriately shown under deposits and advances in the financial statements.
- (o) The sub-loan agreements for 17 foreign loans obtained by the Government of Sri Lanka for water supply schemes amounting to Rs. 14,705.34 million had not been entered into with the General Treasury and as a result, the loan and grant portions of such loan could not be separately identified in audit. Further, the accuracy and completeness of the loan balances, grants, amortization of the grants and the interest expenses and liabilities thereon shown in the financial statements as at 31 December 2014 could not be ensured.



In this connection the Chairman of the Board had stated that “The *NWSDB has informed this to the Treasury to arrange subsidiary loans but the Treasury has not favorably responded to our request. Hence, the Board is not in a position to provide a reply to this query.*”

- (p) The interest payables on loans obtained for under mentioned projects aggregating Rs. 955.22 million for the years 2011, 2012, 2013 and 2014 had not been accounted for. Details are shown below.

Name of the Project	Amount of Interest Payables	Relevant Period
-----	-----	-----
	Rs. million	
Jaffna Killinochchi Water Supply Project	873.3	2012, 2013 and the first half of the year 2014
Integrated Water Supply Scheme for the Unsaved Areas of Ampara District-Phase III	77.24	2010 and 2012
Project on Consultancy Services of Non-revenue Water (NRW) Engineering Study/Master Plan	4.68	2011 and 2012 and the first half of the year 2013

Further, the interest due for the second half of the year 2013 in respect of Project on Consultancy Services of Non-revenue Water (NRW) Engineering Study/Master Plan had also not been ascertained and brought to accounts.

In this regard the Chairman of the Board had stated that “*The Treasury has approved to convert the outstanding loan and interest as at 31December 2014 into Government Equity to NWSDB*”.

- (q) A difference of Rs.17.36 million was observed between the actual interest payments and interest payments shown in the cash flow statement.
- (r) A debit balance of Rs. 23.48 million relating to a rechargeable work was observed as at 31 December 2014, thus the customer advances balance had been understated by similar amount in the financial statements
- (s) The value of stationary stocks had been overstated by Rs. 4.5 million due to system error.
- (t) Receivable balance of the construction cost incurred in relation to rechargeable works amounting to Rs. 37.53 million had been inappropriately shown under deposits and advances in the financial statements without being set off against the related customer advances.



- (u) Although an expenditure of Rs.4 million had incurred for rechargeable scheme of Timbirigaskatuwa Police Centre, according to the information made available only Rs.2 million had been brought to the financial statements for the year under review.

2.2.2 Un-reconciled Differences

The following observations are made.

- (a) Differences amounting to Rs.1,181.38 million, Rs. 106.4 million and Rs.101.17 million were observed between the amounts shown in the financial statements and the schedules of trade debtors, other debtors and debtors collection control accounts respectively.
- (b) The work-in-progress balances amounting to Rs. 826.25 million shown in the financial statements in respect of eight foreign funded projects had not been reconciled with the corresponding balances shown in schedules furnished by the Regional Support Centre (RSC) and a net difference of Rs.30.40 million was observed in this connection.
- (c) The capitalization work-in-progress balances shown in the financial statements for the year under review had not been reconciled with the capitalization amounts shown in the schedules furnished by the RSC for six foreign funded projects. Hence, a net difference of Rs.32.69 million was observed.
- (d) A difference of Rs.3.97 million was observed between the value of rechargeable works shown in the financial statements of Kalutara, Kandy and Anuradhapura Region's and the corresponding amounts shown in the relevant schedules. Further, a difference of Rs.759,187 was observed between the balance shown in the financial statements and balance shown in relevant schedule of Advance Account
- (e) The information in relation to income from sales is being maintained by the Commercial Division of the Board. However, significant differences of Rs. 57 million, Rs. 276,000 and Rs. 2.4 million were observed between the financial statements figures and the figures in the records maintained by the respective Divisions in respect of Meter Sales, Bulk Supply and Bowser Supply respectively.
- (f) An un-reconciled difference of Rs.886,102 had been observed between the loan interest shown in the financial statement of Kaluganga Project and financial statements of the Board for the year under review.

2.2.3 Unidentified Balances

The following observations are made.

- (a) Unidentified long outstanding debit and credit balances shown under current assets and current liabilities in the statement of financial position yet to be identified as at 31 December 2014 were Rs. 236.23 million and Rs.190.26 million respectively. In addition to that, there were several balances already being categorized as inactive and other unidentified balances aggregating Rs. 7,263.59 million existed as at 31 December 2014 as well.
- (b) Action had not been taken with regard to the unidentified balances totalling Rs.37.75 million remained in the accounts since the period of 1996 to 2004.
- (c) The debit and credit balances of two Collection Control Accounts of the Board as at 31 December 2014 amounting to Rs. 11million and Rs.43.2 million respectively had remained without being cleared over a period of three years. Although internal Cash Transfer Control Accounts should be cleared at the year end, debit and credit balances of Rs.1,028,061 and Rs. 232,146 had remained over a period of three years.
- (d) Unidentified balances totalling Rs.2.17 million were remained in the accounts of Rathnapura and Matara Regions for a longer period of time without being identified and settled.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Value Added Tax payable amounting to Rs. 5.33 million, Rs. 6 million and Rs.3.19 million for the period of 2003 to 2006 and for the years 2009 and 2011 respectively had not been paid even up to 31 December 2015

In this regard the Chairman of the Board had stated that *“A request letter has been sent to the Commissioner General of Inland Revenue for clarifications. A response has not been received yet for it”*

- (b) The balances of trade debtors, debtor collections, sewerage debtors, new connections debtors, Colombo Municipal Council debtors and other debtors aggregating Rs. 1,295.09 million had remained over a period of 3 years without been recovered.
- (c) Short Term Deposits balance of Rs.17.93 million kept by the Board at the Road Development Authority (RDA), Provincial Road Development Authority (PRDA) and Urban Councils had remained unrecovered since the year 1999.

- (d) Advances given to than Ministry of Water Supply and Drainage prior to the year 2002 amounting to Rs.19.61 million had not been settled even at the end of July 2015 and any recovery action thereon had not been taken by the Board.
- (e) Although the land had been acquired, action had not been taken to recover the advances granted to acquisitions of such land amounting to Rs. 2.17 million during the period of 2010 to 2012.
- (f) An advance of Rs 47.54 million granted to a contractor during the period from 1999 to 2013 had not been recovered.
- (g) Advances granted to officers and organizations for purchases during the period of 1995 to 2009 amounting to Rs. 248,165 had not been settled even at the end of July 2015.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the each items shown below had not been furnished to audit.

Item	Value	Evidence not made available
-----	-----	-----
	Rs. million	
(a) Short term security deposit balances	26.67	Detailed schedules
(b) Unpaid Output Value Added Taxes (Three Regional Offices)	27.22	Reasons for not paying
(c) Debit balance in the Value Added Tax account (Western Central Regional Support Centre)	9.36	Reasons for un settlement
(d) Customer advances for rechargeable works	2.73	Detail schedules
(e) Semi and half year interest of 57 foreign funded projects		Methods of calculations
(f) Long outstanding loan balance of UDA project –ADB	20.71	Reasons for not paying
(g) Estimated cost of 30 projects	29,010	Decision of Cabinet of Ministers
(h) Cost of Colombo North Town Water Supply Project(package-01) and Ruhunupura Water Supply Project (done by local banks loans)	6,808.97	Bid evaluation reports and details with regard to selections of contractors.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulation etc.

Non-compliance

(a) Management Services
 Circular No. 30 of 22
 September 2006

The approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained

(b) Department of Public
 Enterprises Circular
 No 12 of 02 June 2003

Section 8.3.9

(i) A sum of Rs.9.4 million had been obtained from five foreign funded projects for incurring the expenditure of third international conference on community and water services. However, this expenditure is contrary to the objectives of the projects and the approvals had not been sought from the Secretary to the General Treasury to utilize the project funds for the above purpose.

Section 8.3.9

(ii) Eleven motor vehicles had been released to line Ministry and Rs.1,108,564 had been incurred by the Board for renewal of license and insurance policies of these vehicles.

Section 8.3.9

(iii) Seven employees had been released to the line Ministry during the year under review contrary to the provisions in the Circular.

(c) Financial Regulation 387

Overdrawn balances totalling Rs.96.47 million were observed in the cash books in respect of 8 current accounts.

(d) Stores Management Guide
 of the Board

Obsolete items should be disposed or destroyed within 3 months after getting the Board approval. Nevertheless, the obsolete stocks valued at Rs.14.66 million remained in the stock over a period of more than two years as at 31 December 2014.



3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Board for the year ended 31 December 2014 had resulted in a pre-tax net profit of Rs.1,425.29 million as compared with the corresponding pre-tax net profit of Rs.1,049.39 million for the preceding year, thus indicating an improvement of Rs. 375.9 million in the financial results. The significant increase of metered sales income and new connection income as compared with the previous year were the main reasons attributed for this improvement in the financial results.

3.2 Analytical Financial Review

The following table gives a summary of the financial result at various stages.

	For the year ended 31 December			
	2014 ----- Rs. million	2013 ----- Rs. million	Variance ----- Rs. million Percentage	
Income	18,710.05	17,216.62	1,493.43	8.67
Cost of Sales	<u>(11,325.83)</u>	<u>(10,156.77)</u>	<u>(1,169.06)</u>	11.51
Gross Profit	7,384.22	7,059.85	324.37	4.59
Other Operating Income and Gains	1,390.07	1,195.41	194.66	20.78
Administrative Expenses	(5,985.33)	(5,832.37)	(153.90)	2.64
Other Operating Expenses	<u>(334.37)</u>	<u>(559.43)</u>	<u>225.06</u>	40.23
Operating Profit / (Loss)	2,454.59	1,863.46	591.13	34.55
Finance Income	213.24	225.69	(12.45)	-5.52
Finance Cost	<u>(1,242.53)</u>	<u>(1,039.76)</u>	<u>(202.77)</u>	19.50
Profit / (Loss) before tax	1,425.3	1,049.39	375.91	35.82
Taxation	<u>(53.11)</u>	<u>(47.47)</u>	<u>(5.64)</u>	11.88
Profit / (Loss) for the Year	<u>1,372.19</u>	<u>1,001.92</u>	<u>370.27</u>	36.96

The following observations are made in this connection.

- (a) The gross profit and other operating income and gain of the year under review had increased by 4.59 per cent and 20.78 per cent respectively as compared with the preceding year while other operating expenses had decreased by 40.23 per cent as

compared with the preceding year. In this favorable effect has provided sufficient strength to manage the increase of administrative expenses by 2.64 per cent and financed cost by 19.5 per cent.

- (b) The contribution of Rs. 709,319 per employee in the year 2013 had decreased by 0.69 per cent in the year 2014, while net profit of Rs. 100,759 per employee in the year 2013 had increased to Rs. 136,019 in the year 2014 reflecting a 35 per cent increase.
- (c) The revenue of Rs.44.74 per unit of water consumed in the year 2013 had increased by 1.77 per cent in the year 2014, while production cost of Rs. 26.24 per unit of water consumed in the year 2013 had increased to 27.56 in the year 2014 reflecting a 5 per cent increase.

3.2 Operating Review

3.2.1 Performance

(a) Financial Performance

The balance of total foreign loans obtained by the Board through General Treasury as at 31 December 2014 for water supply schemes amounted to Rs. 41,156 million or 14.55 per cent of the total assets. As analyzed below, the loan installment in arrears as at 31 December 2014 amounted to Rs. 6,353 million and accordingly the additional interest paid for the delays amounted to Rs. 245 million.

Year	Installment in Arrears			Additional interest paid due to non-payment of interest in due date Rs. million
	Capital portion Rs. million	Interest Rs. million	Total Rs. million	
2014	1,078	2,349	3,427	-
2013	1,005	563	1568	60
2012	990	-	990	119
2011	368	-	368	66
Total	3,441	2,912	6,353	245

(b) Implementation of Rechargeable Works

The following observations are made in this connection.

- (i) Rechargeable works are the jobs which can be completed within a shorter period i.e. in most cases less than one year. However, advances aggregating Rs. 419.33 million obtained from customers in respect of 130 rechargeable works undertaken over a period of two years as at 31 December 2014 had been shown in the financial statements without being any changed. In the meantime, the progress reports and the reasons for delays in relation to individual jobs were not made available for audit.
- (ii) Although a sum of Rs. 39.14 million received as advances from the period of 2010 to 2014, the constructions works of 11 rechargeable schemes had not been commenced even up to end of the year under review.

(c) Production and Distribution of Clean Water

The Board had produced 575 million cubic meters of clean water during the year 2014 as compared with the production of 547 million cubic meters in the year 2013, which indicated 4.85 per cent increase. The number of water supply connections given at the end of the year under review had been 124,251, thus indicating an increase of 3.35 per cent as compared with that of previous year.

(d) Non - revenue Water (NRW)

The loss incurred by the Board due to non-revenue water which had not been identified and accounted separately, but had been brought to the accounts as a normal cost. Details of non-revenue water of the year under review and the last four years are given below.

Description	2014	2013	2012	2011	2010
Water Production (Cu. m.)	547.99	547.0	525.6	490.0	469.0
Water Consumption (Cu.m.)	410.92	381.6	368.5	344.5	321.5
Non-Revenue Water (Cu.m.)	137.07	165.4	157.1	145.5	147.5
NRW as a Percentage of Water Production	28.24	30.24	29.89	24.64	31.45

The following observations are also made in this connection.

- (i) Out of the quantity of water produced by the Board in the year 2014, non-revenue water represented 28.24 per cent due to leakage, unlawful connections, free supply and administrative reasons etc. The portion of the non-revenue water in the city of Colombo in 2014 had been 46.65 per cent.

- (ii) Even though the Board had taken certain course of action during the past period to minimize the unlawful connections and expediting the systems of repairing the temporary breakdowns of water distribution lines, the rate of non-revenue water in the current year as compared with the year 2011 had increased by 3.6 per cent.
 - (iii) As there is a need for the modernization of the main water distribution systems in the city of Colombo, which is older than 75 years, special attention of the Board is drawn to the urgency for the preparation and implementation of plans for that purpose. Even though two foreign funded Projects are being implemented in this connection at present, an adequate reconstruction of water mains had not been achieved therefrom.
The water distribution mains that should be replaced due to water leakages have not been specifically identified to date. Even though the proposals for the implementation of the several major projects have been made, their implementation is moving at a very slow pace.
 - (iv) The attention of the Board for reducing the non-revenue water in the areas other than the city of Colombo was also inadequate and it was observed that the targets included in the Corporate Plan were also not realistic.
 - (v) Although 6 projects with the estimated expenditure of Rs.3,100.17 million had been commenced to reduce the non-revenue water, considerable reduction could not be identified.
- (e) **Sewerage System**
The need for carrying out improvements to the infrastructure facilities for the disposal of sewerage in the cities has arisen due to urbanization taken place along with the economic development of the country. Even though the supply of such facilities is the responsibility of the Board, an adequate progress in this area was not shown in recent years. Although the supply of sewerage disposal facilities to 7 per cent of the population had been expected as a national policy, the information to check the achievement was not made available to audit.
- (f) **Foreign Funded Projects**
A large number of Projects are being carried out by the Board for water supply and sanitation services using local and foreign funds. However, the following weaknesses were observed in this connection.
- (i) Most of the large scale foreign funded projects had not been completed on due dates and cost had highly escalated due to additional works and price increases resulting from the extension of the project period.
 - (ii) Uniform accounting policies had not been followed for the preparation and presentation of financial statements of such projects.

3.2.2 Management Inefficiencies

The following observations are made.

- (a) The Board had acquired 0.3895 hectares of land on May 1994 to construct a water tower and an official residence for Kakkapalliya Water Supply Project. Although the Project had completed by utilizing 9.5 perches of land, the rest of the land had not been transferred to the Pradeshiya Sabha even up to 31 December 2015.
- (b) The activities for acquisition of two lands in Manipai Kattudai area had been commenced in 2010 in order to construct the Regional Office and Kattudai tank under the Jaffna Kilinochchi Water Supply Project. Nevertheless, the acquisition of lands was not completed as at 31 December 2015. Hence, the assessment value had been increased from Rs.6.17 million to 9.52 million during the period of 2010 to 2014.
- (c) A difference of Rs. 9.60 million was observed between the stocks ledger balance and the computerized inventory system balance in respect of DI pipes in main stores (C Division), due to failure of generating the adequate information through the newly introduced computerized inventory management system established by incurring Rs.3.2 million.
- (d) According to the information made available, the total non-revenue water production was 164,078 cubic meters for the year under review. It was further observed that the total direct expenditure of those non-revenue water around to Rs.1,291.29 million and it was loss to the Board.
- (e) According to the audit test check carried out on the estimated bills of a month, it was revealed that 8,795 estimated bills out of 11,004 new connections were issued for non-operating water meters. Therefore, it was observed in audit that the water meters are not in standard level.
- (f) The contract of Moratuwa/ Ratmalana and Ja-Ela/Ekala Waste Water Disposal Project funded by Swedish International Development Cooperation Agency (SIDA) awarded in 2008 had been terminated in 2013 due to bankrupt of the contractor.

The Project had not complied with the provisions in Procurement Manual of 2006 to get the confirmation from a local bank at the time of accepting performance bond and retention bond issued from a foreign bank in respect of the above contract. As a result, the Project had failed to en-cash the performance bond to the value of US \$ 9.06 million and retention bond to the value of US \$ 7.96 million furnished by the contractor. In view of above weaknesses, the Project had not tried to get local legal proceedings and evidence for entering into international legal proceedings were also not made available for audit. In addition to the above lapses, the loss to the Board

from the above contract had not been ascertained and its responsibility had also been not fixed even at the end of 31 July 2015.

3.2.3 Idle and Underutilized Assets

The following observations are made.

- (a) The water meters valued at Rs.11.34 million and D1 pipes valued at Rs.39.92 million had remained in the main stores as non-moving and slow moving for a long period of time.
- (b) The stocks valued at 24.18 million received under Tsunami grant to the Board had remained at the main stores for a long period of time without being utilized for any purpose.
- (c) It was observed that non-moving stocks worth Rs.368 million and slow moving stocks worth Rs.328 million had remained in stocks as at 31 December 2014, and it represent 12.39 per cent of the total stocks value of the Board.
- (d) The abandoned assets valued at Rs. 9.9 million and demolished assets valued at Rs. 4.14 million had been shown in the financial statements for the year under review without being taken proper action thereon.

3.2.2 Matters of Contentious Nature

The following observations are made.

- (a) Balance of Goods-in-transit amounting to Rs.17.95 as at 31 December 2014 had remained over a period of two years without being investigated.
- (c) The Board had charged 20 per cent from the total monthly salary of the Project staff as overhead expenditure incurred by the Board on behalf of the foreign funded Projects without having special approval of the General Treasury. The total overhead expenditure so deducted during the year under review was Rs.444.44 million.
- (d) Although the cost estimation is done by the professionally qualified staff on the basis of approved rates, the estimated initial cost of 5 water supply projects funded by local banks loans had been increased by Rs.15,286 million or between the range of 122 per cent to 338 per cent.
- (e) The initial cost of 6 water supply projects had been increased by Rs .15,746 million on the approvals of Cabinet of Ministers instead of being obtained prior approvals from the Board of Directors.



- (f) Although contracts had been awarded, the loan agreements had not been signed with local banks in respect of 4 water supply projects costing Rs.8,400 million.
- (g) The Non-revenue Water Project (SL P – 66) funded by the Japan Bank for International Cooperation had not been succeeded and subsequently the Project had been cancelled and the consultancy fee of Rs.172 million incurred for above project had been transferred to Greater Colombo Rehabilitation Project. Hence, it was observed that this was a loss to the Board.
- (h) Even though the advances amounting to Rs.3.88 million had received by the Board to laying water pumps in Police Training College and Nadurahena land at Kalutara, the overhead expenditure incurred thereon up to 31 December 2013 amounting to Rs.833,350 only had been deducted from the advances received. However, the details of direct expenditure incurred thereof had not been furnished to audit.

5. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of following areas of control.

- (a) Reconciliation of Control Accounts
- (b) Assets Management
- (c) Stocks Control
- (d) Control over Accounting of Journal Entries
- (e) Project Administration and Performance Review

H.M. Gamini Wijesinghe

Auditor General