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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

WSS/A/NWSDB/01/2016

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

30 January 2018

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 2016 in terms of Section 14 (2) (c) of the Finance Act, No 38 of 1971

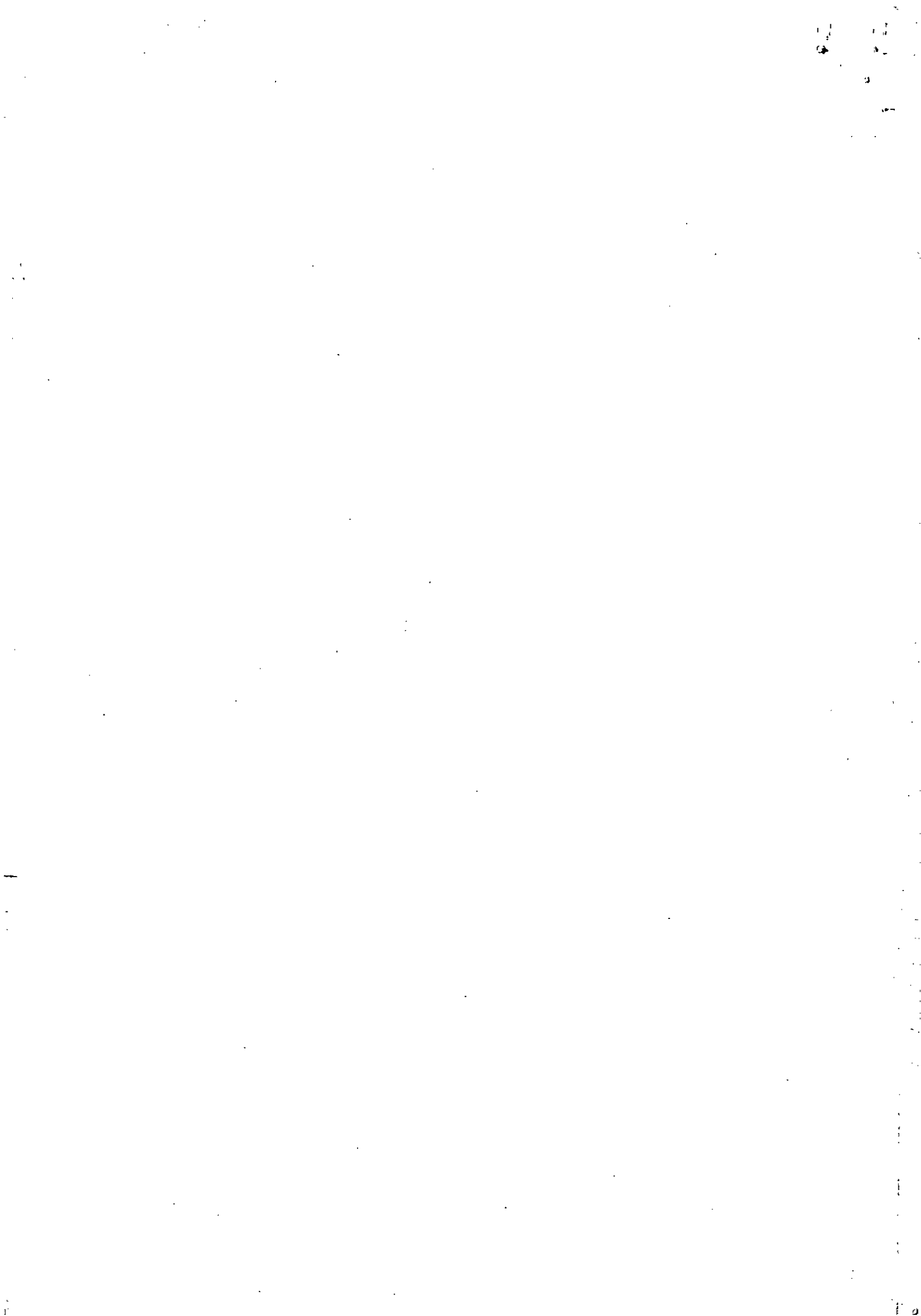
The audit of financial statements of the National Water Supply and Drainage Board ("the Board") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of income and statement of comprehensive income, statement of changes in equity and 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.

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. Sub-sections (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 as at 31 December 2016 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 Compliance with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

- (a) **LKAS 08-Accounting Policies, Changes in Accounting Estimates and Errors:**
Fully depreciated motor vehicles costing Rs.391,105,000 are being continuously used by the Board without taking action to review the useful life time of those vehicles. Further, the Board had also failed to correct the estimated error thereon.



(b) **LKAS 12, Income Taxes**

Differed tax asset and liabilities had not been recognized in the financial statements during the year under your review. Instead of that disclosure relating to differed tax calculation had been made in the financial statement without identifying all taxable temporary differences and deductible temporary differences.

(c) **LKAS 19, Employee Benefits**

Provision for retirement benefit obligation (Gratuity Provision) was not made in the financial statement for the year under review as per the requirements of Section 58 of the Standard. Instead of that an amount equivalent to Rs.394.69 Million which was paid as gratuity during the year under review had been identified as provision for the year under review. Hence, the profit and the provision for gratuity for the year under review had been understated by Rs. 545.91 Million.

(d) **LKAS 20, Accounting for Government Grants and Disclosure of Government Assistance**

(i) Total cost incurred under 28 Foreign Funded Projects aggregating Rs.9,453.27 million which was remained unchanged over a period of 11 years had been brought to the accounts as at 31 December 2016 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.

(ii) Unidentified transactions valued at Rs.2,478.24 million relating to specified projects accounted for as foreign grants had not been amortized as at 31 December 2016.

(e) **LKAS 40, Investment Property**

The carrying value of investment property amounting to Rs. 352.06 Million had not been separately shown in the statement of financial position in terms of Section 75 and 79 of the Slanderred.



2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Balances aggregating Rs. 228,559,097 shown under the works-in-progress in respect of 12 Projects had remained unchanged over a period ranging from three to ten years without being investigated in order to make necessary adjustments in the financial statements.
- (b) Sixty four completed and commissioned water supply projects costing Rs.5,534,819,630 had remained in the work-in-progress as at 31 December 2016 without being capitalized.
- (c) The values of DI pipes and fittings stock as at 31 December 2016 had been overstated and understated by Rs.6,878,121 and Rs.7,246,655 respectively due to computation error.
- (d) An over provision of Rs. 4,324,111 was made for the obsolete stocks shown in the financial statements and as a result, the profit of the year under review had been understated by similar amount.
- (e) A parapet wall alongside the Head Office of the Board had been constructed at a cost of Rs.6,870,296 and handed over to the Board in 2014 by the Road Development Authority due to damage caused to the wall during the construction of road. However, out of that only a sum of Rs.3,424,712 had been capitalized by the Board at the end of the year under review.
- (f) Small Cities Water Supply Project in Pulmuddai costing Rs.192,452,347 shown under non-current assets since 2015 had been amortized twice under the foreign grants and rechargeable scheme during the year under review. Hence, the profit for the year under review had been understated by Rs.3,364,558.
- (g) Actions had not been taken to correct the stock shortages of Rs.2,421,893 shown in the stocks adjustment account.



- (h) Furniture and computer equipment valued at Rs.631,049 belongs to the Board and used by the Japanese Project Section at the Head Office had not been included in the asset accounts.
- (i) Economic Service Charges amounting to Rs.63,287,387 paid during the year under review had been erroneously identified as income tax expenses for the year 2016 without being identified as receivables. Hence, the profit year and current assets for the year under review had been understated by similar amount.
- (j) It was observed in audit that as a practice, the Board is continuously making significant adjustments to the retained profit/ (loss) by way of prior year adjustments in every year. As a result, the profit for each year had been distorted by considerable amount. The net effect to the retained profit/ (loss) for the period from 2013 to 2015 as a result of such prior year adjustments was aggregating Rs.345.9 million. In this ground, the possibility for making adjustments to the profit for the year under review in the forthcoming year had not been ruled out in audit. Hence, the reliability and accuracy of the financial results for the year under review could not be satisfactorily accepted in audit. The details of such adjustments made in the year under review and the previous two years are given below.

Year	Amount Debited	Amount Credited	Net effect to the Accumulated Profit
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	Rs.	Rs.	Rs.
2016	(455,977,322)	336,150,543	(119,826,779)
2015	(184,251,720)	192,301,771	8,050,051
2014	(88,633,609)	269,544,864	180,911,255

2.2.3 Un-explained Differences

The following observations are made.

- (a) According to the financial statements furnished by the Global Partnership on Output Based AID Project, the value of foreign grant as at 31 December 2016 was Rs.212,666,110. However, according to the financial statements of the Board, it was shown as Rs.282,644,182. Hence, an unexplained difference of Rs.69,978,072 was observed in audit.
- (b) Even though the debtor balances as at 31 December 2015 as per the comparison figure shown in the financial statements for the year 2016 was Rs.3,895,171,826 this balance had been shown as Rs.3,813,272,977 in the financial statements prepared for the year 2015. Hence, a difference of Rs.81,898,849 was observed in audit.



2.2.4 Unidentified Balances

The following observations are made.

- (a) Fruitful action had not been taken in respect of unidentified balance of Rs. 179,347 shown in a bank reconciliation statement for over long period of time relating to the current account maintaining at Matara Regional Support Centre.
- (b) Although internal cash transfer control accounts should be zero at the year end, credit balances totaling Rs.2,434,907 remained in this control account without being cleared.
- (c) As per the age analysis of new connection control account, debtors balances aggregating Rs.1,155,154 relating to Trincomalee Region had been brought to the accounts without being identified and reconciled for more than 4 years.
- (d) Debit balance in the collection control account relating to the Trincomalee Region as at 31 December 2016 was Rs.8,677,004. Out of that amounting to Rs.5,108,669 and Rs.2,494,371 had been remain outstanding for more than 4 years and 2 years respectively without been reconciled.
- (e) Even though a balance of Rs.1,721,237 was brought to the financial statements as rehabilitation tax for more than 3 years, reason for creating this account had not been explained to audit.

2.2.5 Lack of Evidence for Audit

Feasibility report and detail schedule of the Wilgamuwa Water Supply Project relating to non-moving and slow-moving stocks valued at Rs.614,524,704 and Rs.474,096,453 respectively had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The balances of trade debtor, sewerage debtor, Colombo Municipal Council debtor, new collection debtor and other debtor aggregating Rs. 282,919,175 had remained in the accounts for over a period of 3 years without being recovered.
- (b) The special bonus advances amounting to Rs. 10,529,933 had remained over 17 years without being settled.
- (c) Short Term Deposits aggregating Rs.26,624,610 kept by the Board at the Road Development Authority (RDA) and Colombo Municipal Council had remained unrecovered since the year 2002. Further, the Short Term Deposits totaling Rs.2,801,222 kept by the Regional Support Centre (Central) at the Road



Development Authority and Central Provincial Council had remained unrecovered since the year 2010.

- (d) Advances given to than Ministry of Water Supply and Drainage amounting to Rs.4,378,829 had been transferred to the suspense debtors during the year 2016. Further, another balance of Rs.15,227,491 remained in the advance account as at the end of the year 2016 had been also transferred to this account without being given any reason.
- (e) Advances totaling Rs.31,314,650 and Rs 13,121,877 granted to the contractors had remained unsettled for over eight years and over the three years respectively and action had not been taken to recover this balance even up to the end of the year under review.
- (f) Advances given to officers and institutions for purchases during the period of 1997 to 2015 amounting to Rs.274,126 had not been settled yet.
- (g) Advances totaling Rs.5,520,606 given for the special projects had not been settled by the relevant parties over three years.
- (h) Although the lands had acquired, action had not been taken to recover the advances granted to acquisition of such lands amounting to Rs. 94,276,927 during the period of 2009 to 2013.
- (i) Creditors totaling Rs.27,182,581 had been kept by the Kandy East Region without being settled since the year 2013.
- (j) Unclaimed salaries and wages as at 31 December 2016 was Rs.5,419,070 and it was represented 67 per cent of the total payables as at the end of the year under review.
- (k) Local loan balance of Rs.20,713,131 payable to local banks relating to the Urban Development Project was remained in the accounts since 2011 without being settled.

2.4 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) Financial Regulation of the Government of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 395(c)	Even though the bank reconciliations should be prepared before 15 of the following month, bank reconciliations of all bank accounts for the month of December 2016 had been prepared after 15 January 2017.
(ii) Financial Regulation 770	Obsolete stocks valued at Rs.16,117,179 had been included in the financial statements of the year 2016 without taking necessary actions as described in the Regulation.
(b) Management Services Circular No. 30 of 22 September 2006	The approval of the Department of Management Services for the Scheme of Recruitments and Promotions of the Board had not been obtained.
(c) Section 8.3.9 of the Department of Public Enterprises Circular No, PED/12 of 02 June 2003-	<p>i. Eleven motor vehicles had been released to the line Ministry during the period of January to December 2016 and Rs.1,666,150 had been incurred by the Board for renewal of licenses and insurance policies of those vehicles contrary to the provisions in the Circular.</p> <p>ii. Thirty nine employees had been released to the line Ministry and other Ministries during the</p>



year under review contrary to the provisions in the Circular. The salaries for those employees paid by the Board had not been reimbursed from the respective parties.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Board for the year ended 31 December 2016 had been a pre-tax net profit of Rs.2,989,591,779 as compared with the pre-tax net profit of Rs.1,149,598,362 for the preceding year, thus indicating an improvement of Rs.1,839,993,417 in the financial results. Significant increase in sales and other operating income, and gains as compared with the previous year were the main reasons attributed for this improvement in the financial results.

An analysis of the financial results for the year under review and the 4 preceding years, the surplus of Rs.407,019,536 in the year 2012 had increased to Rs.2,989,591,779 in the year 2016 with fluctuations. Nevertheless, after taking into account the employees' remunerations, depreciation on non-current assets and taxes paid to the Government, the surplus of Rs.10,374,694,060 in the year 2012 had increased to Rs.15,879,602,172 in the year 2016 with fluctuations.

3.2 Analytical Financial Review

3.2.1 Profitability

The following observations are made in this correction.

- (a) The gross profit of the year under review had increased by 27 per cent while administrative expenses had increased by 7 per cent as compared with the preceding year. Hence, the operating profit of Rs.1,756,594,590 has recorded during the year under review and it had improved by 2870 per cent as compared with the preceding year. Increase of profit for the year by 174 per cent as compared with the previous year was the main reason attributed for this improvement.
- (b) The contribution of Rs.774,768 per employee in the year 2015 had increased by 29.01 per cent in the year 2016, while net profit of Rs.104,156 per employee in the

year 2015 had also increased to Rs.281,505 in the year 2016 reflecting a 178.06 per cent increase.

- (c) The revenue of Rs.40.99 per unit of water consumed in the year 2015 had increased by 5 per cent in the year 2016 while production cost of Rs.46.79 per unit of water consumed in the year 2015 had decreased to Rs. 45.48 or by 3 per cent in the year 2016.

3.2.2 Significant Accounting Ratios

Certain significant accounting ratios for the year under review and proceeding 3 years period are given below.

Year	2016	2015	2014	2013
Gross Profit Margin	42.82	39.19	39.47	41.35
Net Profit Margin	12.68	5.53	7.62	5.87
Current Ratio	5.97	4.48	1.76	1.29

According to the above information the gross profit margin and net profit margin had increased by 9.26 per cent and 129.29 per cent respectively as compared with previous year.

4 Operating Review

4.1 Performance

The following observations are made in relation to achieving the main objectives of the Board.

(a) Production and Distribution of Clean Water

The Board had produced 649 million cubic meters of clean water during the year 2016 as compared with the production of 600 million cubic meters in the year 2015 and is indicated 8.16 per cent increase in the production of clean water. The production cost per unit during the year 2012 to 2016 is as follows.

Year	2016	2015	2014	2013	2012
Unit cost (Rs.)	45.27	46.79	43.96	44.39	41.22



According to the above table, the production cost of the unit in the year under review had been increased 9.82 per cent as compared with the year 2012, main reason for this increase were significant increase in the staff cost and energy cost during the period of 2012 to 2016.

The number of water supply connections given up to the end of the year under review was 138,795 thus, indicating an increase of 13.91 per cent as compared with that of previous year.

- (b) According to the target set out for the year under review it was expected to provide 140,676 new connections during the year under review. However, only 138,750 new connections had been provided during the year under review.

(c) **Non - Revenue Water (NRW)**

The loss incurred by the Board due to non-revenue water which had not been identified and accounted separately, but it 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	2016	2015	2014	2013	2012
Water Production (Cu. m.)	649	600.14	575.00	547.0	525.6
Water Consumption (Cu.m.)	483	436.27	410.92	381.6	368.5
Non-Revenue Water (Cu.m.)	166	163.87	137.07	165.4	157.1
NRW as a percentage of Water Production	25.58	27.30	28.53	30.24	29.89

The following observations are also made in this connection.

- (i) Out of the quantity of water produced by the Board in the year 2016, non-revenue water represented 25.58 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 2016 had been 44.25 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 for repairing the temporary breakdowns of water distribution lines, non-revenue water (Cum) in the current year as compared with the year 2012 had increased by 5.66 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.
- (iv) 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.
- (v) 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.
- (vi) 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.

(d) **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 total population had been expected as a national policy, the information to check the achievement was not made available to audit.



(e) **Achievement of Targets**

The following observations are made relating to targets set out in the Action Plan and their achievements in the year under review.

- (i) Only five Regional Support Centers out of 12 had been able to achieve the targets determined in order to reduce the percentage of Non-revenue. Further, it was expected to reduce the total Non-Revenue Water up to 44.25 per cent at Colombo city. However, the actual reduction was remained 45.85 per cent as at the end of the year 2016.
- (ii) Although it was expected to increase total pipe water supply coverage and total sewerage connections coverage up to 49.8 per cent and 2.4 per cent of total population, the actual coverage was only 47.7 per cent and 2 per cent respectively as at the end of the year 2016.

4.2 **Implementation of Foreign Funded Projects**

A large number of water supply and sanitation services Projects using local and foreign funds were carried out during the year under review and in the previous years. However, the following weaknesses are observed in this connection.

- (a) 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.
- (b) Uniform accounting policies had not been followed for the preparation and fair presentations of financial statements of such projects.
- (c) **Jaffna Killinochi Water Supply and Sanitation Project**

The following observations are made.

- (i) According to the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2016 amounted to Rs. 2,023 million. However,



according to the financial statements of the Project, it was shown as Rs.2,236 million. The difference of Rs.213 million had not been reconciled.

- (ii) According to Section 92 of the National Water Supply and Drainage Board Law No. 2 of 1974, immovable property acquired under Land Acquisition Act should be transferred to the Board. Further, Attorney General had given an opinion on 11 March 2015 that the Water Supply and Drainage Board specially prohibits purchase of immovable property. However, the Project had spent a sum of Rs.2.5 million on March 2013 for the purchase of land in Nallur.

(d) Dry Zone Urban Water and Sanitation Project

The following observations are made.

- (i) Interest amounting to Rs.68.50 million up to 31 December 2014 charged by the General Treasury under the subsidiary loan agreement entered into with the National Water Supply and Drainage Board had been shown under work-in-progress of the Project.
- (ii) Value Added Tax aggregating Rs.131.17 million paid up to 31 December 2016 had been set off against the proceeds of Government contribution received from the Government of Sri Lanka instead of being shown under work-in-progress. As a result, contribution of the Government of Sri Lanka and the work-in-progress shown in the financial statements had been understated by similar amount.
- (iii) According to paragraph 15 of the Schedule 05 of the Loan Agreement, the Water Supply Policy and Sanitation Policy should be approved by the Ministers of Cabinet before implementing by the Project. Even though the Water Supply Policy had been approved by the Ministers of Cabinet on 03 March 2010, the Sanitation Policy had not been approved even as at 31 December 2016.
- (iv) According to paragraph 18 of the Schedule 05 of the Loan Agreement, Urban Councils shall conduct regular monitoring of the quality and quantity



of treated effluent, the quality of the water into which the effluent discharged and the bacteriological quality of dried sewerage sludge. However, no information had been received with regard to implementation of monitoring mechanism by the Urban Councils for effective effluent management.

- (v) The Urban Councils assisted by the Project for septage improvements works should take necessary actions at the initial stages to pass resolution and by-laws to introduce a fee for septage collections and disposals as enable to cover operational and maintenance cost and introduce the compulsory use of septage tanks in new property development. However, action had not been taken by the Urban Councils to implement the proposals thereon.
- (vi) The Project Director had not attended for duties in full time basis and that matter had badly affected to achieve the physical and financial targets of the Project.
- (vii) The Ministers of Cabinet had decided at its meeting held on 05 April 2013 to take action jointly by the Ministry of City Planning and Water Supply, and National Water Supply and Drainage Board to implement a suitable mechanism to closely monitor the activities of the Project. However, no suitable mechanism had been introduced by the both parties even up to 31 December 2016 in this regard.
- (viii) The National Water Supply and Drainage Board had signed a Memorandum of Understanding in 2014 for renovation of 03 irrigation tanks and revamping of lands in Pathiyakulam and Katkulam for paddy cultivation with the assistant of Commissioner of the Department of Agrarian Development in Vauniya without obtaining the concurrence of the Department of Agrarian Development. However, the physical progress of the activities had remained slow as at 31 December 2016 due to administration weaknesses and lack of adequate supervision of the Department of Agrarian Development. Although this matter was highlighted in my previous audit report, the Project had not taken satisfactory action in this regard.



(e) According to Guideline 8.9.3 of the Government Procurement Guidelines, the value of contract is more than or equal to Rs.500 million, should be signed by Secretary to the Line Ministry. However, the following contracts had been signed by the Chairman of the National Water Supply and Drainage Board contrary to the above requirement.

Name of the Project	Name of the Contract	Value Rs. Million
Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 01 (Loan No 2947 SRI and 2948 SRI (SF))	NRW Management Construction Supervision Consultancy Contract	216
Greater Colombo Water and Wastewater Management Improvement Investment Programme Project 2	System rehabilitation for NRW reduction in South part of the Colombo City and system rehabilitation for NRW reduction in West part of the Colombo City	6,991 and 6,555
Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 AFD (Ambatale Energy Saving Project)	Supply and Laying of 9 km DT Pipes (1200mm Dia) and Accessories from Ambatale to Elite House Reservoir	2,565
Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 01 (Loan No 2947 SRI and 2948 SRI (SF))	System rehabilitation for NRW reduction in North part of the Colombo City and system rehabilitation for NRW reduction in East part of the Colombo City.	1,041 and 5,001
Gampaha, Attnagalla and Minuwangoda Integrated Water Supply Scheme	Contract No: P&P/DB/CHINA EXIM/GAMIWSS/2013/01	33,060

(f) Monaragala, Buttala Water Supply Project.

Although the amended Engineer's estimation of the Project was Euro 19.67million, the contract had been awarded to the value of Euro 23.98 million with 21.91 per cent increase. Further, availability of budgetary provision had not been consider before



awarding the contract as regarded by Guideline 8.7.1(a) of the Procurement Guidelines-2006

(g) Rehabilitation of Water Supply Project - Labugama, Kalatuwawa

The following observations are made.

- (i) A sum of Rs.66, 017,868 had been spent to procure four Double Cabs and two Vans by the Project during the year 2014. It was further observed that an additional cost of Rs.38,089,103 had to be paid to the contractor due to lack of properly defined specifications and the country of origin.

- (ii) A sum of Rs.119,391,800 had been paid to the contractor by the Project for the construction of New Office Building and 4 Office Quarters during the year under review. As per the milestone payment certificate, cost per square feet of the New Office Building and the Office Quarters was Rs.27,758 and Rs.10,416 respectively. According to the reports submitted by several Government Institutions, market rate for square feet of similar type of Office Building and Office Quarters was Rs.5,570 and Rs.4,997 respectively. As the rate claimed by the contractor was higher than prevailing market rate, a loss of Rs.81,481,200 had sustained to the Government with regard to construction of office building and office quarters with an extent of 2,500 square feet and 1200 square feet respectively under Labugama Project.

Similarly, the cost per square meter for the construction of Office Quarters was Rs.71,320 under the Kalatuwawa Project. Accordingly, the estimated cost for constructing 5 Office Quarters was Rs.35,659,900. However, according to the reports submitted by several Government Institutions, the market rate per square meter for the construction of similar type of Office Quarters was Rs.53,787. Therefore, the rate claimed by the contractor was higher than the prevailing market rate and as a result an additional cost of Rs.8,766,500 had been incurred by the Project relating to construction of 5 Office Quarters with an extent of 500 square meters.

(iii) Water Treatment Plant - Kalatuwawa

The following observations are made.

- Lamellar plates of the Sedimentation Tank had been removed during the renovations and new lamellar plates had not been fixed thereafter. As a result, sedimentation deposited in the tanks with thick layer and thereby water could not be properly cleaned.
- According to the technical requirement it is required to test 8 parameters of the final water sample daily. However, parameters such as True Color, Total Manganese and THM had not being tested by the laboratory at Kalatuwawa. Further, according to Section 8.3.5.1.4 of the contract agreement, the contractor had to be tested 8 parameters of the final water samples during the contract period. Nevertheless, it had not been tested during the contract period.

(h) **Greater Dambulla Water Supply Project**

Commencement date of this Project was 06 March 2012 and scheduled to be completed by 05 September 2014. However, contractor had failed to complete the Project within the stipulated contract period. Subsequently, the contract period of the Project had been extended in 4 times by the Board up to 31 May 2017 due to not commence some works by the contractor, failure to deploy adequate human resources, abandoned the construction works on various reasons by sub-contractors and un-availability of required materials at proper stages for the Project works etc. Further, it was observed in audit that the financial and physical progress of the Project as at 20 June were 88.6 per cent and 85 per cent respectively.

Even though the contractor had failed to complete this Project works on time, Polgahawela, Pothuhera and Alawwa Integrated Water Supply Project worth US\$108 million and Pannala, Makandura, Kuliypitiya Water Supply Project worth US\$ 91.36 million had also been awarded to this contractor on 08 April 2014 and 02 December 2015 respectively.



4.3 Local Bank Loan Water Supply Projects

4.3.1 Water Supply Project - Kandeketiva

Even though the procurements relating to Project works had been commenced since 2013, it was observed in audit that a formal agreement had not been entered into with contractor as per Guideline 8.9 of Procurement Guidelines-2006 even up to 31 January 2017.

4.3.2 Ampara Distribution Network Water Supply Project

The following observations are made.

- (a) As per the newspaper advertisement published on 11 December 2013 by Inviting the Expression of Interest, the Engineer Estimate of the Project was Rs.3,000 million. However, when calling Invitation for Bids this value had been increased up to Rs.5,184.66 million. Reasons for this increase had not been furnished to the audit.
- (b) According to the Screening Report of the contract, it was revealed that the contractor had submitted an Expression of Interest on May 2013 (before publishing the advertisement) and the contractor had not fulfilled the required financial capabilities and therefore, the contractor selected for this works had not qualified for awarding the contract.
- (c) In terms of Section 5.3.16 of the Procurement Guidelines if bidders are permitted to submit alternative bids it shall be clearly stated in the bidding documents. The alternative bid submitted by the above contractor had evaluated by the Technical Evaluation Committee and recommended to award the contract for Rs.6, 848.06 million, even though it had not been stated in the bidding documents issued by the Board.

4.4 Management Inefficiencies

Even though a sum of Rs.162.75 million provided for small and medium size water supply and drainage Projects implemented in the Central Province during the year under review, only a sum of Rs.65.13 million had been utilized by 30 October 2016.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Stationery stocks valued at Rs.1,542,951 had remained in the stocks as slow moving items for a long period of time.
- (b) According to the audit test check, it was observed that slow-moving stocks valued at Rs.328,937,648 relating to 19 water supply schemes had remained for a long period of time without being taken proper action.
- (c) It was observed that non-moving stocks valued at Rs.614,524,704 and slow moving stocks valued at Rs.474,096,453 had remained in stocks as at 31 December 2016, and it representing 9 per cent and 7 per cent respectively of the total stocks value of the Board. Further, it was an increase of 54 per cent and 37 per cent respectively as compared with the previous year.
- (d) After spending of Rs.1,944,929, Construction of Boundary Wall in Regional Manager Office, Batticaloa had been abandoned without being achieved the objectives of the Project.
- (e) Billing had not been done for water consumption of 1,686,348 cum3 valued at Rs.109 million by the National Housing Authority during the year under review.

4.6 Matters of Contentious Nature

The following observations are made.

- a) Out of stocks in transit of Rs.21,034,473 as at 31 December 2016, stocks valued at Rs.4,223,879 had remained unchanged for a period between one to three years without being investigated. Further, out of stocks worth Rs.128,121,224 shown in the financial statements as at 31 December 2016, the stocks valued at Rs.40,885,545 had shown as stocks in transit over period of two years.
- b) Although stocks received and issued should be adjusted to the stock balance before stock verification, the net debit balances totaling Rs.852,503,970 and net credit



balances totaling Rs. 377,300,265 had been adjusted to the stocks balance after the stocks verification due to not updating the stocks books.

- c) Fourteen contract works had not been completed within the stipulated time period and they were delayed from one to two years without providing any reason. However, the relevant liquidated damages had not been recovered from the contractors in terms of conditions in the contract agreement.
- d) According to the information provided by the Board to audit, 11 vehicles had been released to the Ministry of City Planning and Water Supply since September 2015 to September 2016. However, Secretary to the Ministry had informed me, those 4 vehicles out of eleven bearing numbers, PB-3978, KC-2312, KA-7558 and KL-7787 were not taken over by the Ministry.
- e) It was decided to purchase a land to construct the Waste Water Treatment Plant under Galle Area Wastewater Disposal Project during the year 2014 and the Department of Valuation had valued this land as Rs.71.5 million. An advance payment of Rs.21.45 million or 30 per cent of the value had been paid to the land owner in April 2014. However, the land already occupied some families and the land owner had removed the soil from this land after paid the advance. Prompt action had not been taken by the Board in this regard.
Further, according to Section 92 of the National Water Supply and Drainage Board Low No.2 of 1974, immovable property should acquire under the Land Acquisition Act and to be transferred to the Board. Furthermore, Attorney General had given an opinion on 11 March 2015 that the Water Supply and Drainage Board specially prohibits purchase of immovable property. However, it was observed in audit that the Board had not complied with the provisions in National Water Supply and Drainage Board Law No.2 of 1974 in this connection.
- f) The contract for purchase of 3,000 MT Aluminum Sulphate had been awarded to an Indian company for US\$ 420,000 and Rs.7,500,000 on 18 February 2016 and formal agreement had been signed on 03 March 2016. The following observations are made in this regards.



- (i) According to the Engineer Estimate, the value of 3,000 MT Aluminum Sulphate was Rs.95,385,000. However, the contract had been awarded for Rs.68,517,600 and it was 28.17 per cent lesser than the Engineer Estimate. It was revealed in audit that the Technical Evaluation Committee had not considered the variation of the price quoted by the bidder before making recommendation.
- (ii) Two officers of the Board had attended the pre-shipment inspection held at the factory of the supplier in India and sample taken by them had been handed over to the Laboratory of the Board on 30 May 2016. However, there was no evidence to prove that the officers participated for inspection is competent enough to collect the sample.
- (iii) The sample collected from first shipment on 24 June 2016 had been tested at the Laboratory at Rathmalana. As per the testing report issued on 30 June 2016, the samples were agreed with the specifications laid down for the Aluminum Sulphate SLS701-1985. Based on the test report the Deputy General Manager (Supply and Material Management) had informed to the Main Stores and the Provincial Water Purification Stations to use this Aluminum Sulphate for water purification purpose. However, according to the test report dated 11 July 2016 relating to the samples collected from the Water Purification Station at Kandana on 23 June 2016 it was revealed that the samples were not in accordance with the specification for Aluminum Sulphate. Further, both samples which collected from first shipment and the Water Purification Station at Kandana were tested in Ambatale laboratory on 25 July 2016 and it was confirmed that the samples were not in line with the specifications.
- (iv) According to the discussion had with the supplier on 07 October 2016, the supplier was agreed to grind 274.1 MT Aluminum Sulphate and delivered to the Board. However, supplier had failed to hand over the material as agreed. It was revealed in audit that the contractor had used compactor machine for grind the Aluminum Sulphate at the Main Stores.



- (v) Although the Board had paid a sum of Rs.14,006,437 to the supplier up to 16 December 2016, only a sum of Rs.6,861,000 had been recovered from the Performance Guarantee provided by the supplier. Therefore, a financial loss of Rs.7,205,437 had been sustained by the Board due this transactions.
- (vi) Due to inferior quality of Aluminum Sulphate the Board had to procure Aluminum Sulphate from the previous supplier by incurring an extra cost to the Board.
- (g) Greater Galle Water Supply Project had acquired a land by paying Rs.16 million for the construction of Hapugala Water Refinery Plant in 2012, and the land was not utilized for the intended purpose to date due to a large rock was found after acquisition of the land while investigation for construction therein.

4.7 Human Resources Management

The following observations are made.

- (a) The Board had not taken actions to fill 729 vacancies remained in the main operational level posts such as Managers / Engineer (Mechanical), Engineer (Electrical), Engineer (Civil), Middle Level Technical (ML- T) Clerical and Allied Categories and Other Skilled Grade etc. even up to the end of year under review.
- (b) Action had not been taken to obtain the approval for Scheme of Recruitments and Promotions from the Department of Management Services, as specified in the Management Services Department's Circular No. 30 dated 22 September 2006.
- (c) Board had not taken any action to fill 224 vacancies existed at Regional Support Centre Central, Kandy East, Kandy South, and Kandy North and it represents 30 per cent of the approved cadre.
- (d) According to the information furnished by the Board to audit, the Board had released 113 employees in various categories to the Foreign Funded Projects during the period from 2007 October to 31 December 2016 even though there are 729 vacancies remained in the main operational level posts. Salaries and other allowances paid by the Board had been reimbursed by those Projects to the Board. 02 Deputy General Managers, 13 Assistant General Managers, 33 Chief Engineers, 25 Engineers, 24 Engineering Assistants and 8 Sociologists were among them.

4.8 Apparent Irregularities

The cash fraud of Rs.246.66 million committed at Trincomalee, Kelaniya and Ampara Regions during the period of 1999 to 2006 had not been recovered from the persons responsible even up to 31 December 2016.

5. Accountability and Good Governance

5.1 Internal Audit

Even though a large number of water supply and sanitation services projects using by local and foreign funds are carrying out by the Board, adequate staff had not attached to the Technical Audit Section of the Board.

5.2 Budgetary Control

Significant variances ranging from 2 per cent to 75 per cent was observed between the budgeted and actual income and expenditure of the Board, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. 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 the following areas of control.

<u>Control Areas</u>	<u>Observations</u>
(a) Accounting	(i) Failure to reconcile the control accounts and work in progress balances.
	(ii) Non compatible in numbering the journal vouchers at ledger and journal vouchers.
	(iii) Not entered the narrations in some journal vouchers.
(b) Assets Management	(i) Duplication of fixed assets in different Regions.
	(ii) Not reviewing and reinstating the value of intangible assets.
	(iii) Un-capitalizing the fixed assets even though the projects had been completed.



- (c) Stock Control
- (i) Failure to investigate about the work in progress balances remained unchanged for a long period.
 - (ii) Un-reconciling the physically verified balance along with the ledger balances.
 - (iii) Prevailing long outstanding stocks in transits.
 - (iv) There were long unmoving and slow moving stocks item remained in the stores.
- (d) Project Administration and Performance Review
- (i) Failure to complete the projects in expected time period and extending the time period of most projects without valid reasons.
 - (ii) Unable to properly carry out the feasibility studies.
 - (iii) Non-compliance with Government Procurement Guidelines
 - (iv) Cost had highly escalated due to time extension and weaknesses in fund utilization.
- (e) Accounting of Rechargeable Scheme
- Advance received for the rechargeable Schemes remained in the custody for long a period without being set off against the relevant expenditure incurred.
- (f) Personnel Management
- (i) Releasing of human resources to other institutions without required authority.
 - (ii) Recruitment of employees exceeding the approved cadre and without obtaining approvals from Department of Management Services.

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Auditor General