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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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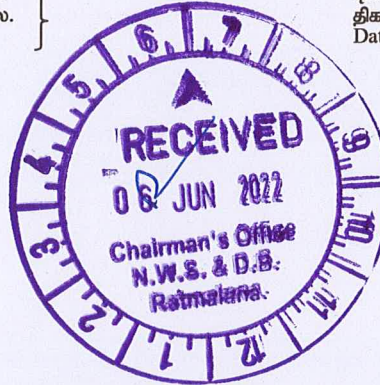
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Date

31 May 2022

The Chairman

National Water Supply and Drainage Board



G.M.
Para 7/6/22

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 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

The above mentioned report is sent herewith.

W.P.C Wickramaratne

Auditor General

- Copies:
01. Secretary, Ministry of Water Supply
 02. Secretary, Ministry of Finance





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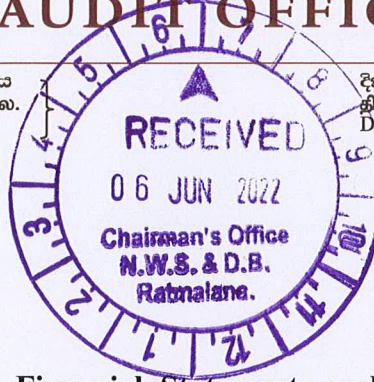
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31 May 2022



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 2021 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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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)

- (i) 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. Apart from that a sum of Rs.51,411,173 and Rs. 65,226,954 written off as bad debts during the year under review in relation to Dehiwala Manager office and Moratuwa area engineer office had been set off against the metered sales instead of recognized as other operating expenses.
- (ii) Contrary to 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, advances and cash book balances and presented it as highly illiquid items without considering liquidity of each item separately.
- (iii) Contrary to paragraph 9 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), stocks with an aggregate value of Rs.632,408,899 which had not moved more than three years period had been recorded at its cost without assessing their net realizable values.
- (iv) Contrary to 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.1,455,412 and a deposit made in Escrow Savings Account amounting to Rs.11,828.23 million had been categorized under Financial assets and Investments respectively in the Statement of Financial Position. However, it was observed that an amount equivalent to Rs.2,065.8 million had been utilized during the year out of balance in escrow saving account.

- (v) Contrary to Paragraph 41 and 42 of the Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08), rental income received from Ministry of Water Supply for the year 2020 amounting to Rs.3,797,412 and Sewerage income of Rs.354,080 and Rs.1,078,301 received in respect of the year 2020 in Seethawaka manager office and Galle manager office respectively had been identified as income for the year under review. Further, sewerage income during the year had been debited by Rs.436,090 to rectify the error made on 07 February 2020 in relation to Greater Colombo Sewerage Section and a sum of Rs.700,000 which should have been identified as a prior year adjustment to the cost of Leased Hold Lands had been erroneously identified as transfer of lease hold land during the year under review. Apart from that Rs.22,696,939 which had been recognized as billing income of the proceeding years in relation to Regional Support Centre Western-Central (Maligawatta) had been identified as deductible adjustments during the year due to erroneous bills raised. However, without taking action to adjust it as per the Paragraph 41 and 42 of the Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08), it had been charged to the metered sales of the year.
- (vi) Repair expense of Wakwella Water Treatment Plant & Building amounting to Rs.5,855,591 incurred during the year 2018 and 2019 had erroneously been identified as work-in progress. However, in order to make the correction similar amount had been identified as expenditure incurred during the year instead of being adjusted in terms of section 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Error (LKAS 08). Further, a sum of Rs.1,224,986 received during the year 2017 as interest in respect of the fixed deposit bearing the number 80836249, had been erroneously credited to cash in transit account during the year 2017. However, it had been corrected during the year under review after recognizing as income for the year instead of being adjusted to the retained loss at the beginning of the year as per the above provision.
- (vii) An additional provision for depreciation of Rs.293,125 had been made during the year under review due to changing the five (05) categories of eight (08) fixed assets instead of being recognized in terms of section 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Errors (LKAS 08).

Further, an amount equivalent to Rs.1,252.33 million exceeding the additions made to the non-current assets during the year had been transferred from the cost of Property Plant and Equipment instead of being recognized in terms of section 42 of the above standard. Apart from that as per the calculations made by audit an under provision for depreciation of Rs.845,272 had been made to the retained loss at the beginning of the year as retrospective adjustments for changing the five (05) categories of eight (8) fixed assets. Hence the retained loss and the provision for depreciation at the beginning of the year had been understated by similar amount.

- (viii) 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.2,604,392,336 related to 17 categories of fixed assets still in use had not been reviewed and accounted accordingly. Apart from that major spares amounting to Rs.396,328,070 which had been remained more than 20 years period had also been depreciated using the rate of 5 percent without reviewing their expected useful lives.
- (ix) 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.10,445.59 million relating to 29 Projects which remained without being amortized over 15 years and Rs.3,258.98 million relating to 05 projects which remained without being amortized over 12 years had been brought to the accounts as at 31 December 2021. 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. Further, contrary to the paragraph 12 of the standard an amount equivalent to Rs. 110,142,908 identified as depreciation of 13 categories of fixed asset items had been debited to separate foreign grant accounts as amortization without separately identifying the specific project relating to each of the foreign grant. And hence an abnormal debit balance aggregating to Rs.110,142,908 was observed in foreign grant.

- (x) Inventory items valued at Rs.27,669,420 received from the contractor of Ruhunupura Water Supply Scheme which had been identified during the stock verification of the year under review in Hambanthota Manager Office and stock items valued at Rs.52,739,979 received to the Akkareipattu Manager office as grants 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).
- (xi) Board had not recognized relationship with related parties that affect assessment of board's operations in terms of the section 8 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24). Further, it had not been introduced a methodology to identify and disclose related party transactions in the financial statements or its draft annual report even by the end of the year under review. Hence the nature and amount of related party transactions could not be ascertained during the audit.
- (xii) Contrary to the provisions in the Sri Lanka Accounting Standard on Investment Property (LKAS 40), the Carrying value of Investment Property amounting to Rs.328,259,619 had been shown as Property Plant & Equipment, instead of been shown as Investment Property as at 31 December 2021. 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.
- (xiii) Contrary to section 5.5 of the Sri Lanka Financial Reporting Standard on Financial Instruments (SLFRS 09), a provision of Rs.30,617,873 for impairment on sewerage debtors and other debtors had been done based on a fixed rate without identifying the expected credit loss.
- (xiv) Contrary to section 12 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38), a sum of Rs.9,593,438 which had been identified as furniture & fitting, other equipmet, plant & equipment etc. during proceeding years, had been identified as intangible assets in relation to Regional Support Centre (Central) during the year

without properly satisfying the criteria of identifiable intangible assets. However it was observed that proper adjustments had not been made in relation to the cost, accumulated depreciation and retained losses at the beginning of the year to reflect the effect of changing the category of above intangible assets as required by Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimate and Error (LKAS 08) instead of that it had been shown as additions to the intangible assets during the year under review.

- (xv) In terms of Section 118 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38), relevant disclosure requirements such as the amortization methods used for intangible assets with finite useful lives and the gross carrying amount and any accumulated amortization at the beginning and end of the period had not been made in the financial statements. Further, the board had failed to review the period of amortization and method of amortization for intangible assets at least each financial year as specified in section 104 Sri Lanka Accounting Standard on Intangible Assets (LKAS 38).

1.2.2 Accounting Deficiencies

- (i) As per section 3.2.1 of accounting policies submitted with the financial statements, the balance of inventory at the end of the year under review is to be valued at weighted average cost method. However during the audit test check it was observed that the inventory balance taken from the management information system had not complied with the weighted average cost method due to abnormal price deviations between stock receipts and issues. Hence, accuracy of balance of inventories in the financial statements cannot be verified in audit.
- (ii) As per section 3.2.1 of accounting policies submitted with the financial statements, a provision for obsolete and slow moving stocks should be made out of balance of inventory. However, as per the books of accounts provision for obsolete and unserviceable stocks amounting to Rs.236,958,510 had only been made without making any provision for slow moving stocks.

- (iii) Economic Service Charges (ESC) paid during the year 2019 amounting to Rs.138,860,749 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.
- (iv) 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 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 even at the end of the year under review.
- (v) 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 even at the end of the year under review. 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 as well for proceeding year for the 42 depreciable items valued at Rs.40,605,148.
- (vi) Three vehicles bearing the number 252-7905, 252-8054 and PA-2052 belonging to Soysapura and Kolonnawa Sewerage sections valued at Rs.4,900,000 had not been accounted in the books of accounts even by the end of the year under review. Further, as per calculations made by audit a provision for depreciation amounting to Rs.445,000 should have been made for those vehicles annually.
- (vii) Four items of fixed assets which had not been recorded in the fixed assets registers or books of accounts of the board had been disposed during the year under review. However, the sale proceeds of disposal amounting to Rs.1,178,000 had been recognized as profit for the year without making any prior year adjustments properly for provision for depreciation after taking into account the date of purchase.

- (viii) In relation to five (05) cost centers in Ampara ,Jaffna,Batticloa and Central North region fixed assets with an aggregate value of Rs.24,797,847 could not be verified and physically not existed as per the physical verification reports and fixed assets registers. However, without taking actions to remove them from books of accounts, a provision of Rs.605,749 had been made for depreciation during the year under review.
- (ix) As per physical verification reports of Central North Regional Support Centre, Vavunia, Jaffna, Eastern,Ampara,Akkareipattu and Batticloa regions it was observed that Free Hold Buildings, Structures, Infrastructure, Computer & Other Equipment, Survey equipment, Mobile Equipment etc. with an aggregate value of Rs.52,399,850 in relation to twenty two cost centers had been damaged, removed from usage and demolished. However, without taking any actions to remove them books of accounts, a provision of Rs.1,637,717 had been made for depreciation during the year under review.
- (x) Sixty six (66) items of fixed assets amounting to Rs.946,780,882 which had not been clearly identified during board of surveys of Central North Regional Support Centre,Mathale, Katugasthota, Vavunia,and Jaffna regions had been included in the fixed assets registers and books of accounts and provision for depreciation amounting to Rs.39,211,284 had been made on them.
- (xi) As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2021 were Rs.7,733,111,838. However, provision for impairment had been made only for debtors amounting to Rs7,662,021,591. Hence no provision had been made for the debtors aggregating to Rs.71,090,247. Apart from that no provisions had been made for the other debtors of Rs.3,743,920 included in non-operating assets of financial statements and remained in the books of accounts for more than 5 years.
- (xii) Trade debtors amounting to Rs.1,243,209 which had been approved to write off by the Department of Public Enterprise on April 2021 had been adjusted to the retained losses at the beginning of the year as prior year adjustment instead of charge to the profit for the year under review. And hence profit for the year had been understated by similar amount.

- (xiii) A sum of Rs.12,697,619 paid by the board as value added tax to the contractors for the projects had been erroneously identified as work in progress instead of accounted them as vat receivables even though they have been already claimed against output vat of the board. Hence balance of work in progress had been overstated and vat receivables had been understated in the financial statements by similar amount.
- (xiv) As per the information received, the cost of one hundred fourteen (114) completed and commissioned Water Supply and Rehabilitation Projects amounting to Rs.70,625.98 million had remained in the work-in- progress as at 31 December 2021 without being capitalized.
- (xv) Out of advances received for rechargeable works, a sum of Rs.171,985,691 relating to 44 projects in Akkareipattu and Ampara Region, Western Central Regional Support Centre and Western South Regional Support had been completed from the year 2014 to end of the year under review. However, actions had not been taken to capitalize them or transfer the remaining balance to relevant income account even by 30 April 2022.
- (xvi) It was observed that the Board had made prior year adjustments in the financial statements of the year 2020 and 2021 pertaining to years 2018, 2019, and 2020. As a result, the retained loss as at the end of year 2020 is distorted by Rs.123.22 million. Hence, the possibility for making adjustments to the profit for the year under review in the forthcoming year could not be ruled out in audit. The details of such prior year adjustments made in the year under review and the previous years are given below.

Year	Amount Debited	Amount Credited	Net effect to the accumulated Profit/Loss
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	Rs.	Rs.	Rs.
2020	128,247,558.00	34,863,912.00	(93,383,646)
2019	29,519,766.00	24,240,710.00	(5,279,056)
2018	37,682,729.00	13,121,667.00	(24,561,062)

(xvii) In respect of seven (07) Projects, the balances aggregating to Rs.198,729,791 shown under the work-in-progress are remained unchanged over twelve years without being investigated in order to make necessary adjustments in the financial statements.

(xviii) It was observed that a sum of Rs.12,506,980 in welfare fund had been adjusted against source of income of capital recovery charges in the financial statements submitted to audit without any reason and hence net profit for the year under review had been overstated by similar amount in the statement of comprehensive income. Further, it was observed that it includes Rs.1,199,700 which had been received in respect Corporate Social Responsibility Fund for the year 2020.

(xix) In terms of the Memorandum of Understanding entered in to between Kurunegala Urban Council and board during March 2021 for the maintenance of the Greater Kurunegala Sewerage System a monthly income of Rs.2.5 million is to be received from the urban council. However, the income for the five months commencing from August to December 2021 amounting to Rs.12.5 million had not been recognized in the books of accounts.

(xx) Long outstanding balances of assets and liabilities amounting to Rs.149,748,448 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.

(xxi) Stolen stocks in Kelaniya region six 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 2021. However, actions had not been taken to recover such losses from respective officers.

(xxii) 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 to be born by the General treasury and the board had incurred Rs.699,702,314 as interest on that loan during the previous year.

However, only Rs.659,277,279 had been identified as receivables from treasury in the financial statements even for the year under review and it had not been recovered from treasury even by the end of March 2022.

(xxiii) A sum of Rs.821,996,056 which should have been identified as interest expense for the preceding year (including board and treasury portion) had been erroneously identified as interest for the year under review in respect of on- going six foreign funded projects. Hence the work in progress at the beginning of the year had been understated by similar amount.

(xxiv) As compared with the confirmations received from banks in respect of accrued interest on loans of seventeen (17) local and foreign funded projects, it was observed an under provision of Rs.318,850,651 had been made . Hence, the profit for the year under review and accrued interest at the end of the year had been understated by similar amount.

(xxv) In relation to Biyagama and Seethawaka Manager offices, Sewerage income of Rs.5,013,530 for the month of September and sewerage income of Rs.8,040,601 for the month of August had been accounted twice. Hence, the loss for the year under review had been understated and sewerage debtors at the end of the year had been overstated by Rs.13,054,131.

(xxvi) As per the calculations made by audit the balance of interest receivable on investments at the end of the year under review had been overstated by Rs.1,500,542. As a result, retained loss at the beginning of the year and loss for the year under review had been understated by Rs.1,476,322 and Rs.24,220 respectively.

(xxvii) An interest of Rs.302,055 relating to the year 2020 (28/12/2020 to 31/12/2020) with respect to fixed deposit bearing the number 85304025 had been identified as interest income for the year instead of being recovered from the opening balance of interest receivable. Further, opening balance of interest receivable with respect to the fixed deposit bearing the number 85304053 had been recovered with a decrease of Rs.86,302 during the year.

- (xxviii) An interest of Rs.4,986,301 relating to the period of 30 September 2021 to 30 December 2021 had not been recognized as interest income during the year under review with regard to the fixed deposit bearing the number 83641912. Hence profit for the year under review had been understated by similar amount.
- (xxix) General expenses of Rs.2,816,590 (including special advance of Rs.80,198) incurred in respect of Greater Colombo Water & Waste Water Improvement Investment Programme had been accounted twice in work in progress and cash imprest account (00/2/59/289/1) of the board. As a result an abnormal credit balance of Rs.2,816,590 was observed in cash imprest account. Similarly, work in progress balance at the end of the year had been overstated by similar amount (including special advance of Rs.80,198).
- (xxx) A sum of Rs.206,361 had been made as amortization for intangible assets in the financial statements for intangible assets recognized during the year. However as per the calculation made by audit Rs.342,622 should have been recognized as amortization. Hence amortization expense had been understated and carrying value of intangible assets shown in the financial statements had been overstated by Rs.136,261.
- (xxxi) Without taking action to dispose actionable stock items amounting to Rs.131,828,414 in forty regions , it had also been identified as inventory in the financial statements.
- (xxxii) A Pipe Cutting machine with a cost of Rs.2,000,000 purchased prior to the year 2000 and remained at warehouse of Western Production Regional Support Centre had been identified as an Inventory item even by the end of the year under review without taking any actions to capitalize.
- (xxxiii) A Water bowser valued at Rs.3,197,000 condemned during the year in kaluthara Region had not been removed from books of accounts even by the end of the year under review and a provision of Rs.159,850 had been made as depreciation in the books of accounts during the year under review.

- (xxxiv) Action had not been taken to record the value of stock items received during November 2018 from Road Development Authority to Waskaduwa warehouses under Western South Regional Support Center in the books of accounts even at the end of the year under review. However, the impact on omission to the financial statements could not be ascertained in audit as there were no details available.
- (xxxv) An unidentified balance of Rs.155,974,054 remained in stock adjustment account at the end of the year under review had been taken into account as inventory in the financial statements without taking any actions to clear them. However as per the random test check it was observed that an identified stock shortage of Rs.2,086,329 in Mathale, Kohuwala, Jaffna Kilinochchi warehouses, Bandaragama IOC office and Wariyapola Ground Water section had also been included in it without taking actions to remove them from books of accounts after proper investigation. Further out of stock adjustment balance of Rs.81,407,868 relating to Matale regional office, variation of Rs.41,739,680 had been recognized due to failure of recording stock transactions during preceding years. However, proper actions had not been taken to clear them or take actions against the responsible officers even by the end of the year under review instead in had been identified as inventory in the financial Statements.
- (xxxvi) A sum of Rs.23,805,258 had been incurred by the respective contractor as demurrages during the year under review for consignment imported for the “Water for all project”. However, no provisions had been made in the books of accounts for the same at the end of the year under review.
- (xxxvii) As per the information furnished to audit, it was observed that the lands situated at Hambanthota region proposed to acquire for Kirama Katuwana Water Supply Project had been legally acquired by the Board during the year 2013 and 2014. However, the advance paid amounting to Rs.6,626,000 on such lands had been accounted in land advances as well as in fixed assets of the board.
- (xxxviii) As per random audit test check it was observed that stock items worth Rs.1,234,790 purchased during the year 2014,2017 and 2020 had not been taken to the Inventory Management System and the books of accounts in Rathnapura region. Hence the value of inventory at the end of the year had been understated by similar amount.

(xxxix) It was observed that building rent for three months period amounting to Rs.900,000 had been over recovered and exchange gain amounting to Rs. 3,029,984 had been accounted twice in relation to advances to contractors of Greater Colombo Water & Wastewater Management Improvement Investment Programme (Project 01) during the year. Hence, balance of advances to contractors and work in progress at the end of the year had been overstated by Rs.2,129,984 and Rs.900,000 respectively while loss for the year in the board financial statement had been understated by Rs.3,029,984. In addition to that advance recovered amounting to Rs.32,933,980 from the interim bills submitted by the contractor of Kandy City Waste Water Management Project during 3rd quarter of the year had been accounted twice in the books of accounts of the board. Hence, balance contractor advances had been understated and work in progress had been overstated by similar amount.

(xl) In relation to Kandy City Waste Water Management Project retention kept by the board out of bills submitted by the contractor, a sum of Rs. 52,336,400 for the third quarter of the year had been accounted twice. Hence the retention payable to contractors and work in progress at the end of the year under review had been overstated by similar amount.

1.2.3 Un-Reconciled Balances

- (i) Differences of Rs.56,043,212 in trade debtors and Rs.127,184,503 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.
- (ii) An un-reconciled difference of Rs.3,939.7 million was observed between the value of metered sales, bulk sales and bowser supply shown in the reports of commercial section and the financial statements.
- (iii) A difference aggregating to Rs.12,316.62 million was observed in foreign grants of Dry Zone Urban Water and Sanitation Project, Jaffna Kilinochchi Waste Water Supply & Sanitation Project and Kaluganga Water Supply Expansion Project when compared

financial statements of the board with the individual financial statements of the respective projects.

- (iv) As per the audit test check carried out, an aggregate difference of Rs.10,633.08 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 six (06) foreign funded projects. Further, when analyzing the reconciliation prepared for Greater Colombo Water & Waste Water Management Improvement Investment Programme (Project i,ii & iii) –ADB and Greater Colombo Water & Waste Water Management Improvement Investment Programme AFD, it was observed in audit that provision for gratuity and payment made during the year for project staff amounting to Rs.15.48 million had not recorded in board's financial statements.
- (v) As per the random audit test check, it was observed that an unidentified debit balances and credit balances amounting Rs.6,292,288 and Rs.361,841 respectively shown in the bank reconciliations from the year 2015 to 2020 in respect of five (05) banks accounts had not been cleared.
- (vi) 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.100,263,323,220 had been transferred to Government Equity account with effect from year 2015 up to the end of the year. However, as per the records of the General Treasury an amount equivalent to Rs.75,388,884,922 had been identified as capital contribution to the board. Hence, it was observed that an amount equivalent to Rs.24,874,438,298 which payable by the board as foreign loans had been transferred to Government Equity without any approval at the end of the year under review.
- (vii) An unidentified credit balance of Rs.7,351,693 remained in cash imprest account in relation to Anuradhapura Water Supply Project (Phase 1) had not been cleared even by 31 December 2021.

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
	Rs.	
(a) Other Debtors	102,867,223	Detailed schedules
(b) Other Creditor	342,938,996	Detailed Schedules
(c) Non- moving & Slow- moving Stocks	1,315,539,477	Age analysis
(d) Tax expense	138,860,749	Detailed income tax computation for the year
(e) Short Term Deposits in Other Institutions	12,779,730	Detailed schedules
(f) HDFC investment for Housing Loans	434,368	Bank Confirmations
(g) Local Bank Loans	26,254,511	Bank Confirmations
(h) With holding Tax	111,540,855	Detailed schedules and Certificates
(i) Security Deposit (Government quarters)	2,354,032	Detailed Schedules (Employee wise)
(j) Advances to Contractors-	5,772,482	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) Treasury Grant	98,979,261,620	Detailed schedule with project related with the grants
(n) Capital Grants-Local Authorities	854,660,910	Detailed schedule with project related with the grants
(o) Foreign Capital Grants	7,347,045,563	Detailed schedule with project related with the grants
(p) Abatement Creditors	2,321,570	Detailed Schedules

(q) Non-operating Liabilities

(i) Trade Creditors	4,131,522	Detailed Schedules
(ii) Unclaimed Salaries & Payroll Clearing	20,639,944	Detailed Schedules

(r) Non - operating Assets

(i) Other Debtors	3,743,920	Detailed Schedules
(ii) Advances	15,274,131	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 2021 Annual Report

The other information comprises the information included in the Board's 2021 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.

Based on the work I have performed on the other information (draft annual report) that I have obtained prior to the date of this auditor's report, I observed following disclosures had not been made as per the Guideline on Corporate Governance for State Owned Enterprises issued by Department of Public Enterprises.

- (a) Details of related party transactions of Board of Directors
- (b) Number/percentage of Board meetings and sub-committee meetings a director has attended during the financial year

- (c) Corporate Governance report etc.
- (d) Risk Committee report

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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- 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.
- 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.
- 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(a), 1.2.1(b), 1.2.1(c), 1.2.1(d), 1.2.1(f), 1.2.1(i), 1.2.1(k), 1.2.1(i), 1.2.2(a), 1.2.2(b), 1.2.2(c), 1.2.2(f), 1.2.2(g), 1.2.2(i), 1.2.2(j), 1.2.2(k), 1.2.2(l), 1.2.2(m), 1.2.2(o), 1.2.2(p), 1.2.2(r), 1.2.3(a), 1.2.3(b), 1.2.3(c), 1.2.3(d), 1.2.3(f).

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

- 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.
- 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 and Guidelines	
(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.431.5 million in respect of 3,846 disconnected debtors whose bill value over Rs.50,000 as at 31 December 2021. Further, no actions had been taken to disconnect the water supply from main line for 12 government quarters with outstanding bill value of Rs.439,371 in Ratnapura District even though reconnection had not been obtained after lapse of 3 to 11 years from the disconnection.
(ii) Admin/09/2018 of 26 September 2018 & Section 8.1.1 and 8.2.2 of Code of Board Quarters	Monthly rent equivalent to the market rent and 12.5 percent of surcharge from salary shall be charged from employees who occupies official quarters more than 5 years. However, as per random audit test check a surcharge (excluding market rent) as at the end of the year amounting to Rs.29,996,237 from sixty six (66) employees in six Regional Support Centres and head office had not been recovered even as at end of February 2022 although they have occupied quarters over 5 years.
(iii) Section 11.2 of Code of Board Quarters	Six official quarters had been allocated to six employees in Regional Support Centre (Western Production) whose permanent addresses are located less than 25 kilometers from the place of work to official quarters. Further an amount equivalent to Rs.2,997,000 had been paid from February 2019 to November 2021 out of funds of Ambathale Energy Savings Project to six employees

whose permanent addresses are located less than 25 kilometers from the place work.

- (iv) Section 2.1 and 2.3 of Admin 16/2020 of 02 September 2020
- Seventeen (17) officers attached to Western Production Regional Support Centre, two hundred three (203) officers attached to Ampara region and one hundred thirty eight (138) officers attached to Akkareipattu region renders their service in the same place for period ranging from 06 to 27 years, 05 to 38 years and 5 to 16 years respectively.
- (v) Section 12.2 of Code of office Quarters and Section 3 of Board Circular No. Ad18/2015 dated 30 November 2015
- Monthly bill value with a surcharge of 10 percent from salary shall be charged from employees whose water bills are outstanding. However, no action had been taken to collect the outstanding water bill charges aggregating to Rs.1,710,387 with surcharge from 201 connections with outstanding value exceeds Rs.1000 for over three months period. Further no any charges on consumption of water had been charged from 9 officers in Regional Support Centre (Western Production) from the occupied date to the end of the year under review and hence board had to incur a loss approximately Rs.255,600.
- (b) Management Services Circular No. 30 of 22 September 2006 and Section 3.2(i) of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021
- Approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained even by the end of March 2022.

(c) Public Enterprise
Department Circular
No.01/2020 of 27 January
2020

(i) Section 1.2 Two vehicles had been allocated for Chairman during the year under review.

(ii) Section 1.4 Two vehicles had been allocated for Vice Chairman during the year under review.

(d) Section 4.3 of Guidance on Corporate Governance for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 A risk committee had not been appointed even by the end of March 2022 to assess the risks that could have an impact on the operations of the board, quantify the impact of such risk both financial and non-financial.

(e) Section 2.3.2 of Management Audit Circular No.01/2019 of 05 March 2019 A full time Project Director had not been appointed to Matara Stage (iv) Water Supply Project from September 2021 even up to 31 March 2022.

(f) Section 3.5 of the Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 During the year under review, the Board had paid a sum of Rs.28.73 million as salaries and allowances of twenty one (21) employees who had been released to the Line Ministry by 31 December 2021. Accordingly, Ministry of Water Supply should reimburse Rs.216.12 million to the Board for the employees released from December 2015 to 31 December 2021.

(g) Amended Value Added Tax Act of No.14 Of 2002

(i) Section 26 (i) Value Added Tax amounting to Rs.2,081,107 relating to sewerage income (value of supply) of Rs.26,123,533 for the month of January 2021 had not been accounted during

January and hence not paid before the end of February 2021.

- (ii) Section 21(i) VAT returns for all of the four quarters of the year 2021 had been submitted to the Department of Inland Revenue with a delay ranging from three to four months.
- (h) Section 1.4 of 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.2,465,952 had been paid during the year under review to 15 (fifteen) VAT inactive suppliers in fifty two occasions.
- (i) Extraordinary Gazette Notification No.2151/52 dated November 29, 2019 published under section 2A of the Value Added Tax Act No.14 of 2002 A lesser percent instead of 8 percent had been charged on metered sales from 8 regions during January 2021 of domestic, government quarters, commercial institutions and government institutions. Hence Rs.2,088,094 lower than statutory percentage of VAT had been declared and paid by the board. Further, Value Added Tax on metered sales amounting to Rs.10,268,679 in relation to Gampaha, Colombo and Ampara region during first two quarters of the year 2021 had not been declared and paid by the board even by the end of 31 July 2021.
- (j) Section 06 of the Asset Management Circular No. 01/2017 dated 28 June 2017 of Ministry of Finance and Mass Media Additions and disposal of fixed assets had not been reported to Comptroller General's office except vehicles even by 30 March 2022 after the year 2016.
- (k) Establishment Code of Democratic Socialist Republic of Sri Lanka
- (i) Section 5 of paragraph XIX As per random audit test check executed in relation to six Regional Support Centres and Head office it was

observed that a monthly rent ranging from Rs.85 to Rs.4,000 only is being charged and no rent had been charged from 20 employees.

(ii) Section 1.8,4.6 and 7.4 of paragraph VII A sum aggregating to Rs.968,517 which consist Rs.328,276, Rs.442,815 and Rs.197,426 respectively in respect of seventeen (17) employees who left their services (vacated of post), resigned and dismiss had been provided in the books of accounts for over three years period although they are not entitled for their personnel emoluments.

(l) Section 113 of Financial Regulations of Democratic Socialist Republic of Sri Lanka An outstanding balance of water bills amounting to Rs.75,868,821 receivable from domestic consumers in relation to Medirigiriya Water Supply Scheme, Colombo urban Council, Colombo City South ,Colombo City North (Mattakkuliya), Manager Kotte(Battaramulla), Dehiwala Manager office, Panadura (Horana) Manager office,ministers quarters had been written off during the year under review based only on board decision without obtaining treasury approval.

(m) Observation (03) of the Minister of Finance had been incurred out of funds received from treasury to bearing the letter No finance interest on loan obtained from National Savings CF17/0453/714/006 dated Bank in respect of Rs.492,381,118 interest payment to 13 March 2017 to the the Gampaha Attanagalle and Minuwangoda integarted Cabinet memorandum No. project for loan obtained from Bank of Ceylon during the 17/0453/714/008 dated 27 year under review.

February 2017

- 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.
- 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;

- (i) In order to provide water supply for Ampara, Monaragala and Batticloa regions, Ampara Water Supply Project (Phase III) had been commenced with an estimated cost of Rs.20,825 million on November 2010 and scheduled to be completed December 2015. Under the component (ii) of the project, it had been planned to construct six elevated water tanks and award the contracts on January and March 2013 with the schedule completion date of August 2014 and March 2015. However, due to poor performance of the contractor, it had been terminated on 24 August 2020. Accordingly partly constructed six water towers incurring Rs.30,351,710 and DI pipes and fittings worth of Rs.15,790,210 had remained idle even by the end of the February 2022. However, new contracts to complete the balance works had not been awarded even at the end of the year under review. Hence, it had been unable to achieve the objectives of the project on time.
- (ii) Thirteen (13) office quarters in Damana Water Supply Scheme, Irakkaman Water Supply Scheme, Sagamma Water Supply Scheme and Mandana Water Supply Scheme constructed at a cost of Rs.33,148,739 had remained idle at the end of the year under review.
- (iii) The contract for rehabilitation of Water Treatment Plant in Rathnapura Hospital had been awarded with a delay of 3 years on 17 October 2018, even though the required funds had been disbursed by the Ministry of Health during 2015 and 2016. As per the contract agreement, the contract had to be completed on 28 February 2019. Nevertheless, due to poor contractor performances, the contract had not been completed even by the end of November 2021. Further the contractor had failed to commence the works until the validity period of advance bond expired.
- (iv) All the constructions relating to Iginiyagala and Wadinagala Water Supply scheme and Damana Water Supply Scheme valued at Rs. Rs.5,585,337 and Rs.84,235,632 respectively had remained idled at the end of the year under review due to changing the distribution lines to Paragahakele Water Supply Scheme and Hingurana Water Supply Scheme.

- (v) As per section 2.3.1 of the procurement guideline board had to satisfy whether it has completed land acquisition and resolved compensation, re-settlement issues, including relocation of utilities and such other matters which are necessary for the uninterrupted implementation of the project. However, it was observed that acquisition of proposed lands for resettlements and construction of water towers for Gam paha Attanagalla and Minuwangoda Integrated Water Supply scheme had not been completed even after lapse of period of the 2nd extension granted.
- (vi) After the grace period for loan granted for Gamapaha, Attanagalla & Minuwangoda Water Supply project by the China Development Bank, five loan installments amounting to USD 37.5 had been paid at the end of the year under review. However, as at that date out of loan disbursed by the China Development Bank, a sum of USD 58,267,381.31 equivalent to Rs.11,828.23 million or 30 percent of loan had been retained in Escrow account without utilizing for project activities by the end of the year under review.
- (vii) With respect to sixteen foreign funded projects and six local bank funded projects a considerable delay ranging from 184 days to 1778 days was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding, etc. even after granting extensions ranging from 01 to 09 occasions.
- (viii) Contrary to the section 6.3.3(b) of the Procurement Guideline, 48 days period had been spent to open the bids relating to the contract for extension of Karthivu Officer In charge Office and contrary to the section 7.8.6 of the Procurement Guideline the contract had not been awarded to the substantially responsive bidder.
- (ix) Without preparing an engineering estimate the generator with a capacity of 800 KVA remained at Akkareipattu Officer in charge office had been handed over to the its supplier on 08 July 2019 for the estimated repair cost of Rs.10,466,352. Subsequently, based on decision taken by the Departmental Procurement Committee the contract to repair had been re-awarded to another bidder for a

contract sum of Rs.9,960,575 on 16 August 2021. Later the contract price of rewarded contract had been amended for Rs.12,625,465 or by 27 percent of the original contract price. However, no proper actions had been taken by the management to get the generator repaired even after 2 and 1/2 years of idling as at the end of the January 2022 even though a sum of Rs.195,975 had been incurred for transportation and testing undertaken by the original supplier.

- (x) An amount equivalent to Rs.162,900 had been incurred as default interest due to delay in repayment of installment by the board in respect of loan obtained for Matara Stage (IV) Water Supply Project. Further, an amount equivalent to Rs.1,815,460 had been incurred as default interest due to delay in payment of electricity bill of Western Production Regional Support Centre for the period of April 2020 to October 2021.
- (xi) Contrary to section 5.4.4 of procurement guideline, a sum of Rs.1,417,515 had been paid to suppliers directly during 01 January 2021 to 30 June 2021 in Galle Manager Office without enter into a valid written agreement. And out of above an amount equivalent to Rs.223,000 released in 6 occasions had not been settled by the respective supplier even by 30 June 2021.
- (xii) An increase of 18.3 percent had been observed between two engineer estimates prepared in two occasions for same bill of quantity items for the contract of Renovation of Ground Reservoir in Kaluthara Alwis Place. Hence the reliability of preparation of engineering estimates is in doubts. Further it had been taken nearly one year to award the contract due to inefficiency in procurement process. In addition to that due to failure of identification of scope of the contract properly additional payments of Rs. 3,736,057 had been made for variation orders. Further, the project had been awarded on 15 September 2020 and schedule to be completed within three months. However, two extensions had been given by the board due to failure of completing the contract as expected even by 20 October 2021. As a result out of 14.8 million advance given by the board an amount equivalent to Rs.3.8 million had only been recovered even by 31 July 2021.

- (xiii) An excavator machine procured during the year 2018 incurring Rs. 22.3 million out of funds of Colombo District East Water Supply Project for the usage of Regional Support Center (Western Production). However, it had only been utilized for 60.5 hours even as at December 2021 and had not been utilized from 28 April 2021 for the operational activities of Regional Support Centre (Western Production)
- (xiv) A boowble camera system valued at Rs.10 million remained at Pothuwil Officer in Charge office and sent to Akkareipattu manager office on 03 July 2017. However, it had not been repaired even by the end of the January 2022.

3. Other Audit Issues

- (i) Trade debtors, new connection debtors, sewerage debtors and other debtors aggregating to Rs.1,992.88 million had remained over two years without being recovered. Out of above trade debtors 59 per cent represents in Colombo, Kelaniya, Kotte and Hambanthota regions. Even though new connection debtors are to be recovered from 3 installments, Rs.7,359,256 had remained more than 3 years period without being recovered.
- (ii) A sum of Rs.244.63 million had remained outstanding from 1975 trade debtors relating to 20 consumer categories, whose bill values are over Rs.50,000 and consecutively not paid for 365 days as at 30 November 2021. Out of above balance Rs.4.57 million represents 8 (eight) minister's office quarters.
- (iii) A sum of Rs.6,996,050 in respect of 42 water connections given to ministers quarters had remained without being recovered as at the end of the year under review whose bill values are exceeds Rs. 5,000 and consecutively not paid for 365 days. Out of those connections, 33 connections with a bill value of Rs.2,277,723 were inactive and not paid more than three years.
- (iv) As per the consumer charter of the Board, the first bill should be issued to the consumer within 30 days of the date of new connection. However, a considerable delay ranging from 37 days to 329 days were observed in delivering of 1st bill in Colombo South,

Maharagama, Kesbewa, Kaluthara and Matara regions in 149 occasions as at 30 November 2021.

- (v) An outstanding balance of Rs.1,765,352 in respect of two illegal connections of Galle Urban Council for the consumption of water for 19 years had not been recovered even by the end of the year under review. Further, as per random test check audit carried out, relating to three illegal connections of individual households in Galle region, it was observed that a sum of Rs. 921,097 had not been recovered even by the end of the year under review.
- (vi) A sum of Rs.28,519,949 due from Colombo Municipal Council had not been recovered for more than 5 years period even by the end of the year under review.
- (vii) Outstanding disconnected debtors as at 31 December 2021 was Rs.1,334,585,928. Out of that, debtors amounting to Rs.461,330,874 which equivalent to 85 percent had remained outstanding over two years without being recovered.
- (viii) A sum of Rs.103,259,692 and Rs.28,969,283 paid as deposits and advance for the acquisition of lands in Regional Support Centre (Central) and Hambanthota regions respectively had remained in books of account for more than five years without taking actions to investigated and recovered them. Further, in respect of land advances paid in relation to Regional Support Center (Central), the responsible officers were unable to provide information to audit as to whether respective lands are acquired or not.
- (ix) As per the financial statements of the Board, the receivable from Ministry of Education was Rs.960,074 for water supply and sewerage facilities provided. However, as per the financial statements of the Ministry of Education it was shown as Rs.467,916. Hence a difference of Rs.492,158 was observed.
- (x) Loans and advances given to former employees amounting to Rs.17,535,788 had remained in accounts for more than eight years period without taking proper actions to recover. However, as per test check done by audit it was observed that more than 90 percent of the above employees who have obtained loans and advances had been given retirement without recovering the due amounts.

- (xi) Balance of trade creditors amounting to Rs.43,267,366 in Kandy, Kandy North, Kandy South and Dehiwala had remained in books of accounts for more than 5 years period even at the end of the year without taking actions to settle. However, as per information received to audit it was revealed that all of the above creditors had been settled their dues even though it had not been correctly accounted in the books of accounts.
- (xii) No legal actions had been taken to recover the advances given to three contractors for the terminated projects in Regional Support Center (Central) during the year 2008 aggregating to Rs.9,648,214 even by 30 April 2022.
- (xiii) No legal actions had been taken to recover the advance given to contractors during 2010-2016 for terminated project aggregating to Rs. 41.11 million in relation to head office even by the end of the year under review.
- (xiv) A sum of Rs.1,963,560 and Rs.666,375 kept by contractors as retentions in respect of six (06) completed projects and four (04) terminated projects respectively in Regional Support Centre (East), Regional Support Centre (Western South), Regional Support Centre (North Western), Regional Support Centre (Sabaragamuwa), Ruhunupura WSP and Sithulpuwa Water Scheme had not been released to relevant parties or take a proper action even by the end of the year under review.
- (xv) Short term deposits aggregating to Rs.53,408,746 deposited in external institutions including Road Development Authority, Colombo Municipal Council, Provincial Road Development Authority and Beruwala Urban Council had remained outstanding over three years without being recovered. Further, an advance kept at line ministry amounting to Rs.4,378,829 had remained outstanding over nine years without being recovered. However, the recoverability of this advance is in doubt since it had not been shown in the statement of liabilities of the Line Ministry for the year under review.
- (xvi) No remarkable actions had been taken to recover refundable deposits made at Road Development Authority two years ago amounting to Rs.7,068,327 by the Regional Support Centre (North West), even though the projects relating to the refundable deposits had already been completed.

- (xvii) Refundable tender deposits amounting to Rs.4,466,358 had remained over three years without being released to relevant parties. Further, an abnormal debit balance of Rs.188,808 remained in refundable tender deposit of Rathnapura region due to repayment of deposit already transferred to income without taking actions to settle them as per section 571(2) of Financial Regulation of Sri Lanka. However, actions had not been taken to settle the abnormal debit balance even by the end of the year.
- (xviii) 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 31 December 2021. However, in relation to Trincomalee Region Rs.24.15 million had only been recorded as other debtors 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 2021.
- (xix) As per the financial statements, the stocks in transit (local purchase) and imported stock in transit as at 31 December 2021 was Rs.61,113,682 and Rs. 2,224,233,337 respectively. Out of that stocks amounting to Rs.454,921,632 had remained over one years without being investigated.
- (xx) As per Corporate Plan for 2020-2025 a new connection target of 301,762 had been established for the year in combined with “water for all” concept under the National Policy Framework and later the target had been amended to 215,000 during the year. However, 192,087 numbers of new connections were given during the year. Nevertheless, the metered sales revenue had only been increased by only 0.1 percent as compared with the preceding year which shows negative growth of 0.06 as compared with growth from 2019 to 2020 even though the number of new connection had been increased by 56 percent as compared with the preceding year.
- (xxi) An abnormal debit balance in trade creditors amounting to Rs.157,743,595 in Bandarawela region, Monaragala, Matara and Galle regions had been remained in accounts without taking actions to investigate and settled. Out of above balance a sum of Rs. 17,482,910 had remained in Bandarawela region even from the year 2015 and 2016 up to the end of the year under review.

- (xxii) National Building Tax amounting to Rs.321,662,628 charged by the contractors in respect of five (05) foreign funded projects had not been paid by the board from the year 2018 even by the end of the year under review.
- (xxiii) An abnormal credit balance of Rs.5,545,062 remained in new connection debtors relating to Panadura Region had not been investigated and settled even by the end of the year under review.
- (xxiv) Abnormal credit balance of Rs.858,379 had remained in cash in transit account of Regional Support Centre (UVA) without being investigated and settled.
- (xxv) An abnormal credit balance of Rs. 1,202,772 was observed in contractor advances in respect of eight projects (00/0/07/242/0 and 00/0/05/242/0) at the end of the year under review without being investigated.
- (xxvi) Considerable delays ranging from 57 to 186 days was observed between the dates of connections given and the date of issuing 1st bill to customers relating to Kaluthara Manager Office.
- (xxvii) Based on Cabinet Memorandum forwarded by the Minister of Finance, Economy and Policy on 18 June 2020 a Cabinet Decision had been granted on 24 June 2020 to obtain a loan amounting to Rs.30 billion from National Savings Bank in order to finance working capital requirement, project financing and financial commitments of the board. However, contrary to the above decision Rs.32 billion loan had been obtained as loans by the board from the National savings Bank in three occasions from 2019 to 2021. Further, a sum of Rs.2,181.17 million had been incurred as interest payment on that loan during the year under review and out of that interest an amount equivalent to Rs.2,080.58 incurred as interest on debt services made out of that loan. Apart from that contrary to the objectives of the loan Rs.66.6 million had been incurred on “Water for all Project” out of loan proceeds during the year under review, even though Rs.17 billion had already been allocated for the same in annual budget of the board. However, as at the end of the year under review Rs.10.43 million had to be reimbursed by the Ministry of Water Supply for the amount incurred on Water For all Project out of loan proceeds of National savings Bank.

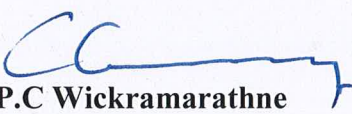
(xxviii) A sum of Rs.245,893,002 had remained as With Holding Tax receivables for more than three years period without taking any actions to get them refund. However, the existence of the balance could not be verified since the detailed scheduled amounting to Rs.111,540,855 had not been provided for audit and the balance was not confirmed through the Department of Inland Revenue.

(xxix) Out of distress loans of Rs.2,509,328,912 given to employees to be recovered within 5 years and 6 years, a loan balance of Rs.13,773,945 given to 187 employees had not been recovered with in due dates. Similarly, festival advance of Rs.599,250 given to 123 employees during the period from 2011 to 2020 had not been recovered even by the end of the year under review.

(xxx) A sum of Rs. 1,432,839 had been deprived to the board due to charging of lower rates than the stipulated rates for official quarters occupied by 11 employees in Regional Support Centre (Western Production).

(xxxi) No actions had been taken to obtain DI pipes and fittings valued at Rs.31.06 million given to an individual contractor of Water Supply and Sanitation project (monitored by the Ministry of Water Supply) without having proper approval as per the section 806 of financial regulations of Sri Lanka.

(xxxii) A sum of Rs. 1,417,916 had been incurred by North Central region of the board for the projects implemented by Ministry of Rural & Divisional Drinking water supply Project Development without obtaining required funds before commencement of the project. However, actions had not been taken to reimburse the cost incurred even by the end of the year under review.


W.P.C Wickramaratne
Auditor General