

National Water Supply and Drainage Board -2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Water Supply and Drainage Board (NWSDB) as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) LKAS 16 – Property, Plant and Equipment (PPE)

Even though the vehicles, buildings and infrastructure of the Board should have been presented at fair value in the financial statements, the sample test check revealed that some of those assets belonging to the North Central and Southern Regional Offices of the Board had not been brought to the financial statements at fair value.

(b) LKAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

The benefit of the Government loans granted at interest rates below the market rates had not been treated as Government Grant in the financial statements.

1.2.2 Accounting Deficiencies

The following observations are made.

(a) Sums of Rs. 394,530,751, Rs. 610,325,081 and Rs 698,216,120 relating to the stocks of vehicle spare parts, water pumps and pumps spare parts as at 01 January 2011, 31 December 2011 and 31 December 2012 respectively, had been capitalized without considering the capitalization criteria of the property, plant and equipment.

Further, the pumps, pipes and spare parts capitalized during the year under review was Rs. 698,216,120 while the physically verified balance as at 31 December 2012 was Rs.690,530,690. Hence, the property, plant and equipment shown in the financial statements as at 31 December 2012 had been overstated by Rs. 7,685,429.

- (b) Total rebates (discount) given to the consumers for the year 2012 at the time of settlement of their monthly water bills amounting to Rs.214,352,013 had been deducted from the revenue of the year under review without being treated as cash discounts and as a result, the gross revenue shown in the statement of comprehensive income had been understated by similar amount.
- (c) The Non-Revenue Water Project (SL P – 66) funded by the Japan Bank for International Cooperation (JBIC) had not been succeeded and as such the Project had subsequently been cancelled. However, a sum of Rs.354.7 million incurred from Consolidated Fund and the Loan in respect of site preparation, payroll, establishment expenditure and payment for consultancy services etc. up to the time of cancellation of the Project had been transferred to the capital work-in-progress of the Kaluganga and Greater Colombo Rehabilitation Projects, without being treated as a loss to the Board.
- (d) The actual cash movements of the capital work-in-progress for the year under review had not been reflected in the cash flow statement and a difference of Rs. 10,030,554,746 between the opening and closing balance of that account had been identified as cash out flow. The actual amount spent during the year under review could not be ascertained in audit due to non-maintaining the required records properly.
- (e) Without being identified the actual cash out flow relating to the acquisition of the property, plant and equipment during the year under review, a sum of Rs. 26,099,213,596 had been taken into the cash flow statement as cash outflow by ascertaining the value after making certain adjustments there to which could not be accepted in audit.
- (f) Having debit balances in liability accounts aggregating Rs.31,967,414, credit balances in assets accounts aggregating Rs.20,669,180 and credit balances in expenditure accounts aggregating Rs.10,214,620 shown in the financial statements appeared to be abnormal and distorted the financial results and financial position of the Board for the year under review.
- (g) The sale proceeds from disposal of eight vehicles in 2011 amounting to Rs.2,947,140 had been accounted in that year. However, posting the costs and accumulated depreciation of those vehicles to the disposal account in the year under review had resulted to overstate and understate the financial results shown in the financial statements of the year under review and the previous year by Rs.3,783,340.

- (h) The loss from disposal of assets amounting to Rs. 3,050,766 had been deducted from the retained profit shown in the statement of changes in equity without being charged against the revenue of the year under review. Hence, the net profit shown in the statement of comprehensive income had been overstated by that amount.
- (i) Stock received to the stores at Hakmana in 2012 amounting to Rs. 5,337,718 had been classified as goods- in-transit in the financial statements. In the meantime the stock handed over to the Board by four foreign funded Projects completed prior to 2012 amounted to Rs. 29,836,125 had not been bought to the stock ledger. In addition to that, 889 stock items handed over by some other foreign funded Projects had also not been valued and brought to accounts.
- (j) The Cost of completed and commissioned 36 water supply Projects amounting to Rs.1,025,553,690 had remained in the working progress as at 31 December 2012 without being capitalized. Further, 10 Projects to the cost of Rs. 316,309,795 out of them had been completed more than six years ago.
- (k) Work-in--progress balance of Rs. 935,920,720 had remained unchanged over a period of 2 to 7 years without being investigated in order to make necessary adjustments in the financial statements.
- (l) Three outside Projects undertaken by the Board for Rs. 130,657,409 had been completed and handed over to the respective parties as at 31 December 2012. Nevertheless, they were still remained in the work-in-progress account shown in the financial statements as at 31 December 2012.
- (m) The inventory balances shown in the financial statements as at 31 December 2012 had been understated by Rs. 16,165,505 due to taking the ledger balance into accounts instead of being taken the physically verified stock balances of four stores in Batticaloa Regional Office.
- (n) Stock valued at Rs. 2,088,107 transferred to the stores of the Bandarawela Regional Office from the stores of the Monaragala Regional Office had been posted to the stock adjustments Account (476) instead of being posted to the Stock Account (202) of the Bandarawela Regional Office.
- (o) Debit and credit balances in the suspense account of Rs.3,429,965 and Rs. 956,115 respectively, had been carried forward in the financial statements year by year since longer period without being cleared.
- (p) A sum of Rs. 66,349,388 worth of property, plant and equipment held at stores in the Vauniya Regional Office since 2009 had been transferred to the property, plant and equipment and revalued in the year 2012. However, any depreciation in respect of this property, plant and equipment since 2009 had not been provided for in the financial statements.

The Chairman of the Board had stated in this regard as follows.

“Even though the assets were used, they were not documentarily issued to the users due to the uncertain situation in the North in previous years. Therefore, we were unable to estimate the depreciation to the respective assts.”

- (q) Accumulated depreciation of Rs. 254,176,756 in relation to the assets revalued in 2011 had not been transferred to the revaluation account of that year. However, it had been deducted together with the depreciation for the year 2012 amounting Rs. 33,962,411 from the brought forwarded retained earnings shown in the statement of changes in equity. As a result, the profit for the year under review had been overstated by Rs. 33,962,411.
- (r) The revaluation loss of Rs. 776,836,147 transferred to the administration expenditure of the year 2012 had included the previous year revaluation loss of Rs.16,087,247 as well. In this results, the net profit shown in the financial statements for the year under review had been understated by Rs 16,087,247.
- (s) The value of the land belonging to the Yatiyanthota Water Supply Scheme had incorrectly been accounted as Rs. 26,400,000 whereas its actual cost was Rs. 2,640,000. Therefore, the property, plant and equipment shown in the financial statements of the year under review had been overstated by Rs. 23,760,000.
- (t) The assets at Ambatale Water Treatment Plant obtained by the Board from a private company on lease basis for a period of ten years since 2002 had also been revalued as Rs. 48,276,000 and brought to the same asset accounts of the Board. Even though the lease period of the assets had been elapsed as at 30 September 2012, these assets had remained in the accounts of the Board without being adjusted.
- (u) The sub- loan granted by the General Treasury for the Jaffna Killinochi Water Supply Project funded by the Asian Development Bank had not been brought to the financial statements of the year under review. The loan balance as at 31 December 2012 was Rs. 136,873,431.
- (v) The foreign aid granted by the Government of France and French Development Agency for Greater Trincomalee Water Supply Project in 2009 was Rs. 133,722,026. The General Treasury treats a half of that as a grant and the balance half as a sub-loan. However, the Board had accounted the entire amount as a loan in 2009 and the error had been rectified in 2012. But, the interest accounted for the entire amount had not been rectified and as such, the net profit of the year under review and the retained profit as at 01 January 2012 had been understated by Rs,4,011,661 and Rs. 8,023,322 respectively while overstating the payable balance as at 31 December 2012 by Rs.12,034,982.

- (w) Interest for the years 2010, 2011 and 2012 in respect of Asian Development Bank loan obtained for the Dry Zone Urban Water and Sanitation Project amounting to Rs.229,355, Rs.333,845 and Rs. 4,495,834 respectively had not been brought to the accounts and as a results, both work-in-progress and accrued expenditure shown in the financial statements as at 31 December 2012 had been understated by Rs.5,059,034.
- (x) According to the financial statements of the year 2012, the balance in the Foreign Grant Account as at 31 December 2012 was Rs.115,885,741,431 and the following deficiencies were observed in this regard .
- (i) Out of the above balance, sums aggregating Rs.15,510,711,286 or 13 per cent in relation to 48 accounts had remained unchanged over a period of 3 to 7 years without being amortized as at 31 December 2012. The impact to the financial statements due to non-amortization could not be ascertained in audit as there were no details of the assets relevant to those foreign grants.
 - (ii) The abnormal debit balance of Rs.3, 257,197 was observed in that balance due to over amortization of the foreign grants relevant to NORAD 3 Project.
 - (iii) Payment of gratuity amounting to Rs. 5,940,582 had also been included therein.
 - (iv) Transactions aggregating Rs. 2,451,558,287 posted to the Foreign Grant Account No. 00/0/00/365/0 which could not be allocated for particular project/s, had not been amortized as at 31 December 2012.
 - (v) The total value of assets donated to the Regional Support Centers of Tirukowill and Potuwill by the UNICEF and Red Cross Organizations was Rs.1,252,656,322. However, it had been transferred to the Head Office Grant Account (A/CNo. 00/0/00/365/0) without being posted to the relevant grants which had also caused not to amortize.
- (y) New water supply connections given on credit basis had not been brought to the accounts. Instead, the installment of new connection charges recovered in 2012 through monthly water bills amounting Rs.17,138,893 had only been credited to New Connection Installment Debtor Control Account.
- (z) The sub loan agreements for 11 foreign loans obtained by the Government of Sri Lanka for water supply schemes amounting to Rs. 10,458,797,332 had not been entered into with the General Treasury and as a result, the loan and grant portions could not be separately identified in audit. However, the entire amount had been accounted as project loans in the financial statements without obtaining a clearance from the General Treasury. Even though the loan interest of Rs. 693,633,943 for the year under review relating to six foreign loans of Rs. 7,832,854,966 had only

been accounted for, the basis for such accounting treatment was not made available to audit.

- (aa) Fifteen items of assets valued at Rs.16,057,633 held in Regional Support Centre (Western North) as at 31 December 2012 had not been taken into the financial statements.
- (ab) The net book value of the removed buildings of Regional Support Centre (Western North) amounting to Rs. 2,764,160 had remained in the accounts and as such, the property, plant and equipment shown in the financial statements as at 31 December 2012 had been overstated by that amount.
- (ac) The sewerage debtor balance of Rs.41,293,375 written off in 2012 had been adjusted to the opening balance of the retained earnings of the year 2012 without being charged against the profit of the year under review. As a result, the profit of the year under review had been understated by similar amount.
- (ad) The entire work-in-progress balance of NORAD Project funded by the Norwegian Government and Government of Sri Lanka (GOSL) aggregating Rs.81,497,789 had been set off against the brought forward balance relating to GOSL without being identified the exact amount incurred by each source.
- (ae) The work-in-progress balances of Moratuwa, Ratmalan, Jaela/Ekala Waste Water Project and the Greater Trincomalee Water Supply Project as at 31 December 2012 shown in the financial statement of the Board had been understated by Rs. 22,193,932 and Rs. 698,523,622 respectively due to erroneous posting and error in computation of such balances.
- (af) Receivable balance of the construction cost incurred in relating to rechargeable works amounting to Rs. 47,565,589 shown under deposits and advances in the financial statements had included a credit balance of Rs.1,952,428 as well and as a result, the receivable balance had been understated by similar amount. It was further observed that action had not been taken to set off that outstanding balance against the related customer advances.
- (ag) Value Added Tax Liability amounting to Rs. 298,983,431 shown in the financial statements as at 31 December 2012 had been overstated by Rs. 14,933,814 due to error in accounting.
- (ah) The loan balances of the Greater Trincomalee Water Supply Project and Dry Zone Urban Water and Sanitation Project (ADB 5th project) shown in the financial statements of the Board had been understated by Rs. 18,023,250 and Rs.3, 612,041 respectively, due to erroneous accounting.

- (ai) Unidentified and unreconciled long outstanding debit and credit balances yet to be reconciled as at 31 December 2012 was Rs. 236,388,280 and Rs.190,607,762 respectively.

In addition to the aforesaid balances already categorized as inactive, there were several other unidentified balances aggregating Rs. 79,755,636 as at 31 December 2012 as well.

- (aj) Inactive salaries and wages payable account balance carried forwarded in the financial statements since 2000 was Rs. 36,876,515. However, an error correction for Rs. 8,802,907 in relation to the salaries and wages payable for the years 2001 and 2002 which was detected in 2012 had erroneously been set off against the above mentioned account balance.

- (ak) The balance of the Welfare fund of the Board shown in the financial statements as at 31 December 2012 had been understated by Rs.5,132,338 comparing with the related investment balance in the bank saving account.

Even though a balance of Rs.14,415,579 had been shown in the welfare fund account as at 31 December 2012, the details such as establishment, purpose, authority, handling, funding, management, etc. of that welfare fund were not made available for audit. Further, 20 per cent of the consultancy income earned by the Board had been transferred to that account annually in addition to sums of Rs. 467,305 and Rs.480,002 had been transferred thereto from the annual profit of the years 2011 and 2012 respectively.

1.2.3 Un-reconciled Differences

The following observations are made.

- (a) The work-in-progress balances shown in the individual financial statements of the Jaffna Killinochchi Water Supply and Sanitation Project, Dry Zone Water and Sanitation Project and the Kaluganga Project as at 31 December 2012 were Rs.194,563,838, Rs.1351,366,762 and Rs.5,015,235,578 respectively. However, according to the financial statements of the Board they were Rs.22,359,036, Rs.1,278,682,523 and Rs.5,055,105,357 respectively. Hence the Unreconciled differences observed between those two financial statements were Rs. 172,204,802, Rs. 72,684,239 and Rs.20,130,221 respectively.

- (b) According to the financial statements for the year under review, the trade and sewerage debtor balance as at 31 December 2012 was Rs.3,687,794,673. But, according to the information furnished to audit by the Commercial Division of the Board it was Rs.3,613,555,000. Hence, the unreconciled difference observed between those two was Rs.74,239,673.
- (c) The revenue from sales of water for the year under review shown in the financial statements had not been tallied with the sales figures available at the Commercial Division and a difference of Rs.182,055,961 was observed between those two as details given below.

Regional Support Centre	Amount as per the Financial Statements	Amount as per the Reports of the Commercial Division (after billing adjustments)	Difference
	Rs	Rs	Rs
Western Central	5,656,414,679	5,677,953,229	21,538,550
Western South	1,381,418,942	1,389,410,053	7,991,111
Western North	1,500,716,852	1,493,688,519	7,028,333
Southern	1,404,893,194	1,447,501,728	42,608,534
Central	1,071,320,710	1,068,203,950	3,116,760
East	575,096,948	568,032,064	7,064,884
North Central	564,886,271	559,256,085	5,630,186
North Western	307,785,682	268,906,514	38,879,168
Sabaragamuwa	448,837,880	471,442,261	22,604,381
North	45,026,791	21,172,845	23,853,946
Uva	390,199,400	388,459,292	1,740,108
Total			182,055,961

- (d) A difference of Rs. 13,715,992 was observed between the stocks ledger balance and the computerized inventory system balance in respect of the Braze item in the Main Stores due to failure of generating the adequate information through the newly introduced computerized inventory management system.

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Trade and sewerage debtor balance aggregating Rs. 840 million at the end of the year under review had remained outstanding for over two years. The stand post and disconnected consumer balances included therein was represented 58 per cent and 33 per cent respectively. As there were no identifiable consumers with regard to the outstanding balance from stand post, the recoverability of the above balance

was not ensured in audit. Further, taking adequate actions for the recovery of other outstanding balances even as at end of the year under review were not observed.

- (b) The other debtor balance included under other receivables as shown in the financial statements as at 31 December 2012 was Rs.96,431,125. The balances outstanding from the Colombo Municipal Council and Board of Investments (BOI) amounting to Rs. 83 million and Rs. 11 million respectively were remained in the accounts for more than 3 years without being taken any effective recovery action.
- (c) The non-moving staff loan balances aggregating Rs.11,787,385 was remained as at 31 December 2012 for more than five years without being recovered.
- (d) Action had not been taken to recover the loss of Rs. 2,421,893, Rs. 581,232 and Rs.17,530 incurred due to stock shortages of the stores at Kelaniya, Kegalle, and Hambantota Regional Offices identified in 2012, 2010 and prior to 2010 respectively from the responsible persons.
- (e) Stocks-in-transit (Code 203) amounting to Rs. 5,302,193 had remained in that account over longer period without being taken any action to clear it.
- (f) Goods-in-transit (foreign - 207) amounting to Rs. 36,622,723 had been remained in the account for more than 6 months at the balance sheet date without being investigated. It was further observed that, the position had remained unchanged even at the end of May 2014 as well.

1.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) A long outstanding sewerage debtor (A/C No.271/2) balance of Rs.73,610,959 prevailed as at 01 January 2012 had been reduced by Rs. 42,240,924 in the year 2012. Nevertheless, the journal vouchers and other necessary supporting documents for the related entry passed in the ledger accounts were not made available for audit.
- (b) The details such as title deeds, acquisition notices, Gazette notifications etc. to ensure the ownership of the following fixed assets valued at Rs.227,175,000 shown in the financial statements was not made available for audit.

Item	Location	Amount Rs.
Land - Colombo Municipal Council Area	AGM Office, Maligawatta	29,000,000
Ground Reservoir Lands	(a) Nilaweli	7,500,000
	(b) Greater Colombo Waste Water Project	187,700,000
Buildings	Greater Colombo Waste Water Project	2,975,000
Total		227,175,000

- (c) Rechargeable works are the jobs which can be completed within shorter period, in most cases less than one year. However, advances aggregating Rs.87,271,439 taken from customers in respect of 50 rechargeable works undertaken for more than 3 years ago as at 31 December 2012 had been shown in the financial statements as a payable. The details such as progress reports as at 31 December 2012 and the reasons for delays etc. in relation to individual job of those works were not made available for audit.
- (d) Non-moving rechargeable work receivable balance of Rs. 6,042,111 was observed in Trincomalee Regional Office as at 31 December 2012 without having any details and it has been carried forwarded in the ledger accounts year by year for more than three years without any investigation.
- (e) As pointed out in my previous year audit report, the Property, Plant and Equipment having the book value of Rs. 8,663,620,800 were not made available for physical verification since 2010 even though, they were continuously being shown in the financial statements without being investigated.
- Out of them assets valued at Rs.2,037,405,374 had been identified as duplication and adjusted in the accounts in 2012. But the details of the duplication including the journal entry passed for rectification of the duplication were not made available for audit. Further, the existence of the rest of the assets to the value of Rs. 6,626,215,426 as at 31 December 2012 was also not confirmed to audit.
- (f) The journal vouchers and related details in relation to the entries passed to clear unidentified and unreconciled long outstanding debit and credit balances in the year 2012 of Rs. 107,794,723 and Rs.18,858,109 respectively were not made available to audit.

1.3 **Non – compliance with Laws, Rules, Regulations and Management Decisions etc.**

The following non-compliances were observed in audit.

- (a) The approval of the Management Services Department (MSD) for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained as specified in the Management Services Department’s Circular No 30 dated 22 September 2006.
- (b) Fifty seven vehicles had been released to the Line Ministry and other Government Institutions and Rs.1,471,427 had been incurred as expenditure on behalf of these vehicles by the Board during the year under review in contrary to the PED Circular No. 116 of 24 January 1997.

In addition to that, salaries and other allowances amounting to Rs.2,462,364 had been paid by the Board during the year 2012 for seven employees released to other Government Institutions contrary to the above Circular instructions.

- (c) In contrary to the Financial Regulation 626, the financial statements for the year 2012 in respect of 23 foreign funded Projects out of 34 Projects had not been submitted for audit.

2. **Financial Review**

2.1 **Financial Result**

According to the financial statements presented, the working of the Board for the year ended 31 December 2012 had resulted in a pre-tax net profit of Rs.407,019,536 as compared with the corresponding pre- tax net profit of Rs.737,409,182 for the preceding year, thus indicating a deterioration of Rs.330,389,644 in the financial results. The following table gives a summary of the financial results at various stages.

For the year ended 31 December

Description	2012	2011	Change	
	Rs.	Rs.	Rs	%
Revenue	14,344,205,499	12,609,703,240	1,734,502,259	13.76
Cost of Sales	(8,821,797,602)	(7,470,490,082)	(1,351,307,520)	18.09
Gross Profit	5,522,407,897	5,139,213,158	383,194,739	7.46
Other Operating Income and Gains	1,586,511,700	1,318,540,370	267,971,330	20.32
Administrative Expenses	(5,848,136,492)	(4,680,820,504)	(1,167,315,988)	24.94
Other Operating Expenses	(54,474,810)	(227,425,798)	172,950,988	(76.05)
Operating Profit	1,206,308,295	1,549,507,226	(343,198,932)	(22.15)

Finance Income	213,955,983	131,257,102	82,698,882	63.01
Finance Cost	(1,013,244,742)	(943,355,146)	(69,889,595)	7.41
Profit Before Tax	407,019,536	737,409,182	(330,389,644)	(44.80)
Taxation	(40,217,024)	(53,055,544)	12,838,520	(24.20)
Profit for the Year	366,802,512	684,353,637	(317,551,125)	(46.40)

Accordingly the following observations are made in this regard.

- (a) As analyzed above, the increase of administrative expenditure by Rs. 1,167,315,988 was the main reason for the deterioration of the net profit for the year under review as compared with the preceding year. Further, the salary revision made during the year under review was caused to increase the administrative expenditure.
- (b) The contribution of Rs.560,437 per employee in the year 2011 had increased by 19 per cent in the year 2012 while the net profit of Rs.74,629 per employee in the year 2011 had decreased to Rs.37,932 in the year 2012 reflecting 49 per cent decrease.
- (c) The Board had to incur a sum of Rs.4.90 per unit of water produced as interest on foreign loans obtained for water supply Projects and it was 13 per cent of the total production cost per unit. By analyzing the foreign loans that have to be paid in future, it appears that this rate would be further increased in the ensuing years.

2.2 Operating Review

2.2.1 Production and Distribution of Clean Water

The Board had produced 525.6 million cubic meters of clean water during the year 2012 and as compared with the production of the year 2011, it showed 7.26 per cent increase. The number of water supply connections given at the end of the year under review was 1,585,018 thus indicating an increase of 9.5 per cent as compared with that of the previous year.

2.2.2 Non - Revenue Water (NRW)

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

Description	2012	2011	2010	2009	2008
	-----	-----	-----	-----	-----
Water Production (Cu. m.)	525.6	490.0	469.0	449.0	440.2
Water Consumption (Cu.m.)	368.5	344.5	321.5	309.2	300.9
Non-Revenue Water (Cu.m.)	157.1	145.5	147.5	139.8	139.3
NRW as a Percentage of Water Production	29.89	24.64	31.45	31.14	31.65

Accordingly, the following observations are made in this regards.

- (a) Out of the quantity of water produced by the Board in the year 2012, 30 per cent represented non-revenue water due to leakage, unlawful connections, free supply and administrative reasons etc. The portion of the NRW in the City of Colombo in 2012 was 49 per cent. In view of failure to control this situation, it was observed that an additional cost of Rs.7.15 per unit of water consumed in 2012 had to be incurred by the Board. That represented 43 per cent of the cost of production per unit.
- (b) Even though the Board had taken certain action during the past period to minimize the unlawful connections and expediting the systems of repairing the temporary breakdown of water distribution main lines, the rate of non-revenue water in the current year as compared with the preceding year had not decreased.
- (c) 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 the water main lines were not achieved therefrom.

The main water distribution lines 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 level.

- (d) 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.

2.2.3 Sewerage System

The need for carrying out improvements to the infrastructure facilities for the disposal of sewerage in the cities has arisen due to urbanization taken place along with the economic development of the country. Even though the supply of such facilities is the responsibility of the Board, an adequate progress in this area was not shown in recent years. Although the supply of sewerage disposal facilities to 7 per cent of the population had been expected as a national policy, the information to check its achievement was not made available to audit.

The Chairman of the Board stated in this regard as follows.

Coverage of the sewerage disposal facilities to 7 per cent of the population expected in the national policy could not be achieved as limited number of waste water schemes been implemented due to donors are not being identified to sponsor those project.

2.2.4 Foreign Funded Projects

A large number of Projects are being carried out by the Board for water supply and sanitation services using local and foreign funds and the following weaknesses were observed in this regard.

- (a) Most of the large scale foreign funded projects had not been completed on due dates and costs 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 presentation of financial statements.

2.5 Financial Management

The balance of the total foreign loan obtained by the Board through the General Treasury as at 31 December 2012 for water supply schemes was Rs. 32,574 million or 14.69 per cent of the total assets. As analyzed below, the loan installment in arrears as at 31 December 2012 was Rs. 5,356 million and accordingly the additional interest paid for the delay was Rs. 149 million.

Year	Installment in Areas			Additional Interest Paid due to non- Payment of Interest on due Date Rs. million
	Capital Payment Rs.million	Interest Rs. million	Total Rs. million	
2012	990	1,732	2,722	-
2011	957	1,036	1,993	57
2010	587	-	587	82
2008	54	-	54	10
Total	2,588	2,768	5,356	149

3. Identified Losses

The consumers whose monthly consumption is less than 15 units are entitled for a discount of Rs.20 as proposed by the National Budget of the country for the year 2009. Even though the Government has implemented that decision only for that year and there after no funds had been allocated for said purpose, the Board had continued that concession up to October 2012 despite the funding arrangement. Hence, the total loss to the Board from that transaction as at 31 December 2012 was Rs.417.33 million and the year-wise analysis is given below.

<i>Year</i>	<i>Loss Rs. million</i>
2012	118.61
2011	159.78
2010	138.94
Total	417.33

4. Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

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

- (a) Reconciliation of Control Accounts
- (b) Assets Management
- (c) Stocks Control
- (d) Accounting
- (e) Project Administration and Performance Review
- (f) Receivables and Payables