

Water Resources Board - 2013

The audit of financial statements of the Water Resources Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 17(2) of the Water Resources Board Act, No.29 of 1964. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report.

1:2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810).

1.4 Basis for Disclaimer Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Although administration expenditure such as salary, overtime, travelling and fuel etc. were absorbed to the research studies, the accounting policy (basis) in respect of absorption had not been disclosed in the financial statements. Therefore, the classification of expenditure could not be satisfactorily examined or accepted in audit.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The goods valued at Rs.4,933,604 had been purchased on a credit basis during the previous year without the provision and it had been settled by utilizing the Treasury grant (capital) received for the year under review. Therefore, the research expenditure and the Treasury grant (capital) had been understated by similar amount.
- (b) A sum of Rs.1,488,998 spent during the year under review for awareness and training programmes and distribution of goods contrary to the provisions in the Water Resources Board Act, had been erroneously accounted under the research expenditure of the Anuradhapura District.
- (c) Recurrent expenditure amounting to Rs.2,022,079 incurred on maintenance of vehicles, purchase of furnitures, erecting barbed wire fences, miscellaneous consumable articles, training programmes, purchase of water filters, expenditure on earthenware distributed among the public, stationary, electricity, telephone, motor vehicle insurance, overtime and travelling had been erroneously classified and accounted as research study expenses (capital).

2.2.3 Un-reconciled Control Accounts

The following un-reconciled differences were observed between Treasury print - outs and the statement of financial performance.

Item	Amount as per Treasury print - out	Amount as per statement of financial performance	Differences
-----	-----	-----	-----
	Rs.	Rs.	Rs.
Capital expenditure	15,054,810	9,879,000	5,175,810
Capital grant	15,054,810	9,879,000	5,175,810

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The Board had not taken effective action to recover a sum of Rs.689,155 out of the total receivables of Rs.5,933,085 as at 31 December 2013 even though it had remained outstanding for more than 2 years.
- (b) The Board had obtained advances totalling Rs.7,605,128 from 55 institutions and 10 individuals to carry out various works during the period from 2010 to 2012. However, the Board had not taken any action to settle these advances up to 31 December 2013.
- (c) The withholding tax amounting to Rs.1,462,000 had been shown as receivables under the current assets in the financial statements since 2010. However, the recoverability of this amount was in doubt.

2.2.5 Lack of Evidence for Audit

- (a) The confirmations relating to the balances of trade receivables and creditors amounting to Rs.5,933,085 and Rs.15,705,724 respectively had not been made available for audit. Therefore, the reliability and accuracy of those balances could not be ascertained in audit.
- (b) Even though the Board had earned an income of Rs.74,443,000 during the year under review on Hydrogeological Survey, Construction of Tube Wells, Hand Pump Installation, Pumping Tests, Cleaning the Tube Wells and Water Sample Analysis, the detailed estimates for each and every activities had not been furnished for audit. Further, the actual cost incurred for each activity had not been recorded for enable to compare the actual costs with the actual incomes.
- (c) The Ministry of Irrigation and Water Resources Management had reimbursed a sum of Rs.12,341,651 to the Board during the year under review for the construction of tube wells, hydrogeological studies and various type of research conducted in island wide on behalf of the Ministry. However, the Board had failed to submit the relevant payment vouchers and bills related to the expenditure incurred for the above activities. Therefore, it could not be ascertained in audit whether the entire amount received from the Ministry had been utilized for the intendant purposes.
- (d) An amount of Rs.545,000 obtained from the Ministry of Irrigation and Water Resources Management had been spent during the year under review to carry out the research activities on water quality at Rathupaswala. Nevertheless, the Board had failed to furnish the paid vouchers and other related documents thereon for audit.

2.3 Non-compliance with Laws, Rules and Regulations etc.

The following non-compliances were observed in audit.

Reference to Laws, Rules and Regulations

Non-compliance

- (a) **Water Resources Board Act, No.29**

**of 1964 and amended Act, No.42
of 1999**

Section 14(1) and 14(2)

The Advisory Committee to the Board had not met during the year under review though the Committee should advise the Board on any or all of the matters set out in Section 12 of the Act.

**(b) Financial Regulations of
Democratic Socialist Republic of
Sri Lanka**

Financial Regulation 262 (2)

Some of the paid vouchers and their supporting documents had not been stamped with the "PAID" stamp. Hence, the possibility of presenting the same documents for payment a second time could not be ruled out in audit.

(c) Treasury Circulars

(i) Circular No. 842 dated 19
December 1978

A register of fixed assets had not been maintained by the Board in terms of provisions in the Circular.

(ii) Section 9.7 of the Public
Enterprises Circular
No. PED / 12 of 02 June 2003

A special allowance of Rs.1,775,000 had been paid to some selected officers of the Board from January to December 2013 without being obtained the required approval from the Secretary to the Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Board for the year ended 31 December 2013 had resulted in a deficit of Rs.49,116,000 as against the corresponding deficit of Rs.43,812,000 for the preceding year, thus indicating a further deterioration of Rs.5,304,000 in the financial results for the year under review. The main reason attributed for this deterioration was increase of expenditure by Rs.8,465,000 as compared with the increase of income by Rs.4,906,000.

4. Operating Review

4.1 Performance

According to the annual estimates, progress reports and other information furnished by the Board, the physical performance of the construction works and research studies carried out by the Board during the year under review is given below.

Item/Activity	Estimated units	Completed units	Variation Units
Hydrogeological Survey	100	193	93
Tube Well Construction	100	84	16
Hand Pump Installation	50	31	19
Pumping Test	40	43	3
Tube Well Cleaning	30	13	17
Water Sample Analysis	500	1259	759

Consolidated Fund Projects

*** Water Quality Changes in Aquifer System and Identification of Zones With Hazardous Minerals Containing in Water in Anuradhapura District.**

Water Sample Analysis	650	219	431
Geophysical Survey	60	12	48
Test Bore Hole Drilling	50	10	40
Pumping Test and Leveling	10	02	08

*** Hydrogeological Study on the Coastal Sandy Aquifer Extending from Colombo to Negombo**

Geophysical Investigation	50	16	34
Construction of Bore Holes	50	10	40
Pump Test	20	02	18
Leveling	100	-	100
Water Sample Analysis	200	171	29
Establishing Well Monitoring	-	194	194

Development of Ground Water Monitoring Network in Jaffna

*** Peninsula.**

Hydrogeological Survey	100	03	97
Construction of Test Bore Holes	100	03	97
Water Sample Analysis	100	127	27
Pump Test and Leveling	50	07	43
Ground Water Monitoring	100	127	27

*** Hydrogeological Study in Limestones Aquifers in Mannar District.**

Geophysical Investigation	50	15	35
---------------------------	----	----	----

Construction of Test Bore Holes	50	05	45
Pump Test	10	-	10
Leveling	50	13	37
Water Sample Analysis	50	248	198
* Hydrogeological Coastal Study in Vavuniya and Kilinochchi.			
Geophysical Survey	50	18	32
Construction of Test Bore Holes	50	06	44
Water Sample Analysis	50	10	40
* The Study on the Direct and Indirect Impacts of the Climate Changes on the Coastal Aquifer System of Sri Lanka			
Construction Shallow Piezometers	30	-	30
Water Sample Analysis	50	-	50

The following observations are made in this Connection.

- (a) Even though the Board had planned to carry out 100 leveling, 10 pump testing, construction of 30 shallow piezometers and 50 water sample analysis, none of those had been carried out during the year under review.
- (b) The Board had established 194 well monitoring network under the Hydrogeological Study on the Coastal Sandy Aquifer Extending from Colombo to Negombo, Project during the year under review. However, this activity had not been included in the annual estimate.
- (c) Actual expenditure on laboratory and other consumable, workshop and seminar had exceeded by 739 per cent and 5168 per cent respectively as compared with the budgetary provisions.

4.2 Weaknesses in the Implementation of Research Studies

The Board had implemented 06 research studies in order to examine the quality of water and its impact to the general public and out of total provision of Rs. 45,000,000 allocated for the year 2013 for this purpose, a sum of Rs. 9,879,000 had spent during the year under review to carry out these research studies. Details are shown below.

Name of the Research Study		Estimated Cost	Date of Commencement	Due date of Completion	Estimated Expenditure for the year	Actual Expenditure during the year	Cumulative Expenditure as at 31 Dec. 2013
-----		-----	-----	-----	-----	-----	-----
		Rs.			Rs.	Rs.	Rs.
(i)	Water Quality Changes in Aquifer System and Identification of Zones with Hazardous Minerals containing water which Leads to Cause Health Problems to People in Anuradhapura District.	23,632,000	June 2010	31.12.2011	9,550,000	3,694,000	11,153,990
(ii)	Hydrogeological Study on the Coastal Sandy Aquifer Extending from Colombo to Negombo.	127,000,000	July 2010	31.12.2012	14,450,000	1,925,000	18,398,539
(iii)	Ground Water Assessment and Development of Ground Water Monitoring Network for Jaffna Peninsula.	28,500,000	January 2012	31.12.2014	2,000,000	1,467,000	2,154,000
(iv)	Hydrogeological Study in the Limestone Aquifers in Mannar District.	28,800,000	January 2012	31.12.2013	6,575,000	1,051,000	4,462,000
(v)	Hydrogeological Study in Vavuniya and Kilinochchi District.	77,950,000	January 2013	31.12.2015	69,700,000	589,000	589,000
(vi)	The Study on the Possible Direct and Indirect Impacts of Climate Change on Coastal Aquifer System of Sri Lanka.	16,000,000	January 2013	31.12.2015	12,000,000	203,000	203,000

The following deficiencies were observed in this connection

(a) Common Lapses Observed in the Implementation of Research Studies

- (i) Although a full time research officer should be appointed to monitor the research studies for its successful completion, a full time research officer had not been attached to any research studies implemented during the year under review by the Board. Instead of that the General Manager of the Board had nominated as research officer for all studies. Therefore, these studies could not be completed within the scheduled time.
- (ii) It was observed that the research studies had not supervised by a competent and experienced research officer.
- (iii) List of names of the officers those who were attached to the research studies and allocated man days for each study had not been included in the research proposals.
- (iv) The accumulative expenditure and physical progress of the study had not been given when extended the period of execution.
- (v) Detail expenditure of each item had not been included in the research proposal.

(b) Water Quality Changes in Aquifer System and Identification of Zones with Hazardous Minerals Containing Water which Leads to Cause Health Problems to People in Anuradhapura District

- (i) Although this research study should have been completed at the end of November 2011 or within 18 months from the date of commencement, it had not been completed even up to end of the year 2013.
- (ii) Acceptable reasons had not been given for this unusual delay.
- (iii) The following 03 new activities which were not included in the first research proposal had been included in 2012, due to weakness in the planning of the research studies.

Name of Activity -----	Number of Units -----
Conducting Hydrogeological Investigations	- 100
Constructing of Test Boreholes	- 50
Conducting Pumping Tests	- 50

- (iv) Cost of Rs.19,800,000 had been estimated for collection and analysis of 300 water samples in first research proposal. However, at the extension of the research in 2012

that amount had been reduced up to Rs.1,000,000 and in 2013 only a sum of Rs.500,000 had been estimated for collection and analysis of 500 water samples indicating weakness of the estimation.

- (v) Sufficient provision had not been obtained from the Treasury for 2010, 2011 and 2013 and a proper estimate or work plan for the provision of Rs.15,000,000 allocated by the Treasury for the year 2012 had not been included in the research proposal.
- (vi) Tabling the results of this research study in Parliament is very important to propose solutions for life threatening Chronic Kidney Disease which has been reported from the North Central Province. However, inability to complete the research study as scheduled caused great loss to public and total expenditure of Rs.11,153,990 incurred on this research study since 2011 had become fruitless.

(c) Hydrogeological Study on the Coastal Sandy Aquifer Extending from Colombo to Negombo

- (i) Although the research study should be completed within two and half years from the date of commencement or at the end of the December 2012, it had not been completed even up to end of the 2013.
- (ii) Sufficient provision had not been obtained from the Treasury in 2010, 2011 and 2013 and a proper estimate or work plan for the provision Rs.30 million allocated by the Treasury for the year 2012 had not been included in the research proposal.
- (iii) Total expenditure of the research by 31 December 2013 was Rs.18,398,539. That was 14 percent from estimated total expenditure. Therefore, it is observed in audit that targets of the research were unrealistic.
- (iv) Out of 6 specific objectives of the research, the Quantification of recharge to the aquifer and to set limits of extraction from sand aquifer within the study area had been omitted in 2014, due to legal issue.

(d) Ground Water Assessment and Development of Ground Water Monitoring Network for Jaffna Peninsula

- (i) Capital expenditure of the Board such as construction of buildings and procurement of office furniture amounting to Rs.17 million had been included to the expenditure of this research study.

- (ii) Although estimated expenditure in 2012 was Rs.12.5 million, the Treasury had approved only Rs.10 million. In the year 2013 Treasury approved provision was Rs.8 million whilst estimated expenditure was Rs.2 million, thus indicating the weaknesses in the financial management of the study.
- (iii) Although the total estimated expenditure for the year 2012 and 2013 was Rs.28,500,000, the actual expenditure was Rs.2,154,000. Therefore, financial progress of the study was only 14 per cent. As such the target of the research was unrealistic even in 2014.

(e) Hydrogeological Study in the Limestone Aquifer in Mannar District

- (i) The study had not been completed as scheduled by the end of the year 2013, due to weaknesses of the planning.
- (ii) Financial performance in 2012 and 2013 was at a unsatisfactory level of 15 per cent and 16 per cent respectively.
- (iii) Total expenditure of Rs.4,462,000 incurred on this study had become a fruitless because the research study had not been completed as scheduled.
- (iv) It was observed in audit that the financial management of the study had been unsatisfied due to considerable variances were observed between estimated expenditure and provision approved by the Treasury for the years 2012 and 2013. There had been an under provision of Rs.7,225,000 in 2012 and over provision of Rs. 2,425,000 in 2013.

(f) Hydrogeological Study in Vauniya and Kilinochchi District

- (i) The financial progress was unsatisfactory due to actual expenditure was 0.8 per cent as compared with estimated expenditure.
- (ii) Although the estimated expenditure of the study was Rs.69,700,000 for the year under review, the Treasury approved provision was only Rs.9,000,000.
- (iii) Capital expenditure such as purchase of vehicle, drilling machines, air compressors, field equipment, furniture and construction of buildings amounting to Rs.50 million had been included as expenditure of the study.

(g) The Study on the Possible Direct and Indirect Impacts of Climate Change on Coastal Aquifer System of Sri Lanka

-
- (i) Financial performance of the study was unsatisfactory because only 2 per cent out of estimated expenditure had been incurred.
 - (ii) Although the estimated expenditure of the study for the year under review was Rs.12,000,000, the Treasury had approved only Rs.2,000,000.

4.2 **Management Inefficiencies**

The following observations are made.

- (a) Even though a provision of Rs.46,000,000 had been made for the Board under the Head 152 - Ministry of Irrigation and Water Resources Management for capital expenditure, only a sum of Rs.15,054,810 had been utilized during the year under review. The Board had failed to utilize a sum of Rs.30,945,190 or 67 per cent of the total provision.
- (b) Prompt action had not been taken in respect of non-moving stocks valued at Rs.5,378,596 and obsolete stocks valued at Rs.3,804,738 remained in the store.

(c) **Achievement of Objectives**

The Board had not taken necessary action to achieve the following objectives as laid down in Section 12 of the Water Resources Board (Amendment) Act No. 42 of 1999.

- (i) The control regulation and development (including the conservation and utilization) of the water resources of the country.
- (ii) The prevention of the pollution of rivers, streams and other water resources.
- (iii) The formulation of national policies relating to the control and use of the water resources of the country with the following objectives.
 - ❖ The multi-purpose development and use of water resources.
 - ❖ The short term and long term provision of water resources for domestic supplies and industrial supplies.
 - ❖ The control of salinity
- (iv) The preparation of comprehensive and integrated plans for the conservation, utilization, control and development of the ground water resources of the country.

- (v) Co-ordination of the activities of the Government Departments, Local Authorities and Public Corporations in regard to surveys of basic data and other investigations, relating to hydrogeology.
- (vi) Analysis of reports based on investigations, statistical surveys, plans and proposals relating to the ground water resources of the country made by Government Departments, Local Authorities and Public Corporations.
- (vii) Co-ordination of projects undertaken by Government Departments, Local Authorities and Public Corporations, relating to the conservation, utilization and development of the subterranean water resources of the country, and the assessment of the possibilities, benefits and economic feasibility of such projects.

4.3 Build up a Fund for Retirement Benefits

Even though a provision of Rs.71,141,000 had been made in the financial statements of the Board as at 31 December 2013 for the payment of gratuity, only a sum of Rs.3,235,000 had been invested to meet the future obligations.

5. Accountability and Good Governance

5.1 Internal Audit

Although ten internal audit reports were issued by the Internal Audit Division during the year under review, action had not been taken by the Board to rectify the issues pointed out by those audit reports.

5.2 Budgetary Control

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

6. Systems and Controls

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

- (a) Accounting
- (b) Control Over Fixed Assets
- (c) Budgetary Control
- (d) Receivables and Payables
- (e) Research Studies