

## **National Community Water Trust – 2014**

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The audit of Financial Statements of the National Community Water Trust for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and income and expenditure account 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 16 of the National Community Water Trust Deed No. 1443 of 30 December 2011. My comments and observations on the above financial statements appear in this report.

### **1.2 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles 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**

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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. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

### **1.4 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Community Water Trust as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Provisions for depreciation had not been made for the year under review in respect of property, plant and equipment valued at Rs.58,901,841 which included in the statement of financial position.
- (b) Cash flow statement and the statement of changes in equity for the year ended 31 December 2014 had not been presented along with the financial statements.
- (c) The income of the year under review had been over stated by the same amount as a result of the interest income of Rs.140,515 relating to the year 2013 included in the financial statements though the interest income on fixed deposits relating to the year under review amounted to Rs.144,535. Further, the interest income of Rs.44,167 receivable relevant to the year under review had not been brought to account.

#### **2.2.2 Lack of Evidence for Audit**

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Information relating to the increase of the value of fixed assets by Rs.6,205,462 by the Journal entry No.134 in December of the year under review and any explanation and documentary evidences relating to the account which its credit note put had not been presented to the audit.

### **2.3 Non-compliance with Laws, Rules, Regulations**

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Action in terms of Financial Regulation 396 had not been taken in respect of 03 cheques of which the total value of Rs.8,500.

### **2.4 Accounts Receivable and Payable**

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The following observations are made.

- (a) The expenditure payable as at 31 December 2014 amounted to Rs.18,216 and the building rent of Rs.10,697 included in it had not been settled and brought forwarded from the year 2013.
- (b) As the funds allocated by the Ministry of Water Supply and Drainage were not adequate, a sum of Rs.763,229 out of the registration fees of Community based Organizations for the payment of salaries for the staff of the National Community Water Trust during the year 2012, and a sum of Rs.531,346 for the recurrent expenditure of the District offices in the year under review respectively had been utilized. Accordingly, a sum of Rs.1,294,575 had shown in the financial statements as payable to the Community based Organizations and receivable from the Ministry of Water Supply and Drainage, action had not been taken to settle it.

### **3 Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the National Community Water Trust for the year under review had been a surplus of Rs.88,218 as compared with the surplus of Rs. 1,109,256 for the preceding year, thus indicating a deterioration of Rs.1,021,038 in the financial result for the year under review. Even though, the decrease in expenditure on community development by Rs.14,573,087 despite the decrease in money received from the Ministry of Water Supply by Rs.13,477,661 and increase in expenditure on administration and institutional by Rs.2,357,348 had mainly attributed the above deterioration.

### **4. Operating Review**

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#### **4.1 Performance**

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Water pumps and equipment costing Rs.45,521,008 had been provided to the Community based Organizations in the year under review with a view to improving water and sanitation facilities of Community based Organizations and to achieving self-sufficiency of Community based Organizations.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Action had not been taken even in the year under review to assess and properly take over the assets valued at Rs.52,560,198 granted to the National Community Water Trust by the Ministry of Water Supply and Drainage in the year 2012.

- (b) A sum of Rs.3,530,700 in the Registration fees of Community based Organization Account as at 31 December 2014 had been shown under current liabilities in the balance sheet. Even though it had been decided to utilize the registration fees of Community based Organizations for the supply of water and sanitary facilities , action had not been taken accordingly.

**5. Systems and Controls**

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

- (a) Assets Management
- (b) Accounting