## National Water Supply and Drainage Board - 2015

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The audit of financial statements of the National Water Supply and Drainage Board (NWSDB) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### 1.2 Management's Responsibility for the Financial Statements

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

### 1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of audit.

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

### 1.4 Basis for Qualified Opinion

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

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Water Supply and Drainage Board (NWSDB) as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) **LKAS 16 - Property Plant and Equipment:** According to the provisions of the Standard, if an item of property plant and equipment revalued the entire class of property plant and equipment to which those assets belong shall be revalued. However, the fixed assets valued at Rs.167.90 million had been brought to the accounts during the year under review without being revalued as requested.

Further, 405 and 461 fixed assets items used by Jaffna and Hambantota regions had not been valued and capitalized. As a result, the value of fixed assets shown in the financial statements had been understated.

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

(i) Foreign grant received during the year 2015 for Improving Community Based Rural Water Supply and Sanitation Project was amounting to Rs. 135.75 million. However, the related cost included in work-in-progress had not been brought to the financial statements for the year under review.

(ii) Foreign grant balances aggregating Rs. 9,517.27 million relating to 28 projects which remained unchanged over a period of 10 years had been brought to the financial statements as at 31 December 2015 without being amortized. The impact to the financial statements due to non-amortization could not be ascertained in audit as there were no details available relevant to those foreign grants.

(iii) The, unallocated transactions relating to specified projects aggregating Rs. 2,465.18 million accounted for as foreign grants had not been amortized as at 31 December 2015.

(c) **LKAS 37 – Provision**

(i) The indemnity claim of Rs.100.11 million for the year 2014 had been paid in 2016 to the contractor of a foreign funded project without being made provision in the financial statements. Although legal proceedings are continued in respect of interest claim by the contractor, it had not been disclosed in the financial statements as contingent liability.

(ii) A legal proceeding against the Board had been continued at Kegalle District Court claiming an indemnity of Rs.5 million for damage caused to the property of a third party when laying the pipes lines. The disclosures in this connection had not been made in the financial statement for the year under review.

(d) **LKAS 38 - Intangible Assets**

(i) According to the financial statements for the year under review Indian software received as a grant and used by the Board had become a zero value as at end of the year under review. However, a balance of Rs.20.74 million had remained in the grant account according to the ledger without being amortized.

(ii) It was observed that the amortization of Rs.31.9 million relating to the year 2013 and 2014 had been erroneously included in the comprehensive income statement for the year under review. As a result the profit for the year under review had been overstated by similar amount.

(e) **LKAS 39- Financial Instruments Recognized and Measurement:** The balance of Rs.7,643.55 million received as Treasury Bond to meet the local fund requirements of donor funded water supply projects during the year under review had not been categorized as financial assets available for sales in financial statements. Further, the gain or loss on fair value of this balance had not been identified in other comprehensive income for the year under review.

### 2.2.2 <u>Accounting Deficiencies</u>

The following observations are made.

(a) Although the Emergency Northern Recovery Project had been completed in the year 2013, the assets belonging to the Project valued at Rs.1,298.46 million had remained in work-in-progress without being capitalized. Further, the buildings, lab equipment and vehicles valued at Rs. 258.84 million Rs. 4.88 million and Rs. 23.50 million respectively had not been capitalized and brought to the financial statements during the year under review which were granted by the Jaffna killinochchi Water Supply Project.

(b) The abnormal credit balances of Rs.929.82 million, Rs.17.45 million and Rs.440,694 had been shown in the debtors collection control account, new connection debtors account and trade debtors account respectively and as such those debtors and receivable balances had been understated by Rs. 947.71 million in the financial statements for the year under review.

(c) The foreign grant amounting to Rs.111.59 million and Rs.27.23 million received from Australia Upgrading Sewerage Project and Greater Colombo Wastewater Management Project respectively during the year under review had been credited to the grant account twice, as a result of that grant and work- in- progress account had been overstated by Rs. 138.82 million.

(d) The sea water purification plant constructed in the year 2009 under the Project of the Design and Construction of Drinking Water Treatment Facility for Moratuwa, Panadura and Negombo by using Spanish Tsunami Facility Fund of Rs. 363 million had not been capitalized even elapsed of six years as at 31 December 2015 and as such the value of Property, Plant and Equipment (PPE) shown in the financial statements had been understated by similar amount. It was further observed that, the plant had not been in operation since July 2010 due to problems in the intake.

(e) Even though, the stock balance brought to the financial statements as at 31 December 2015 was Rs. 6,137.05 million, the physically verified balance as at that date was Rs.6,124.06 million. Hence, the stock balance shown in the financial statements as at 31 December 2015 was overstated by Rs.12.99 million.

(f) An outside project valued at Rs. 110.95 million which completed and handed over to the respective parties as at 31 December 2015 had remained in the work-in-progress without being cleared.

(g) Balances aggregating Rs. 1,090.55 million shown under the work-in-progress in respect of 34 projects had remained unchanged over a period ranging from three to ten years without being investigated in order to make necessary adjustments in the financial statements.

(h) The work-in-progress balance had been overstated by Rs.36.67 million and Rs.148.79 million due to entering the amounts twice in the financial statements during the year in respect of ADB Wastewater Project and Upgrading of Sewerage Infrastructures for Kataragama Sacred Project respectively.

(i) Although six projects had been completed and capitalized, the work- in -progress balances totaling Rs.90.98 million had remained under the respective projects without being cleared.

(j) The cost of 97 completed and commissioned water supply projects amounting to Rs. 4,287.15 million had remained in the work-in- progress as at 31 December 2015 without being capitalized.

(k) The interest payables on loans obtained for two projects aggregating Rs. 81.92 million for the years 2010, 2011, 2012 and 2013 had not been accounted for. Further, the Government equity of the Board had been understated by Rs.81.92 million as a result of the non-consideration of those interests.

(l) Seven vehicles valued at Rs.33.08 million received from Moratuwa Ratmalana, Ja-ela / Ekala Projects used since the year 2012 had been capitalized during the year under review instead of being adjusted to the prior years. However, depreciation thereon amounting to Rs. 6.42 million had been accounted as prior year adjustments. As a result the additions to fixed assets for the year had been overstated by similar amount.

(m) Three Lorries and one double cab used by the Board since 2012 which brought to the accounts twice had been corrected during the year under review. However, depreciations thereon Rs.1.16 million had not been accounted as prior year adjustment in the financial statements.

(n) Value of assets totaling Rs. 43.97 million had been brought forwarded year by year without being identifying them separately in the fixed assets register.

(o) A Bowser valued at Rs.2 million had been brought to the accounts by Batticalo and Ampara Regions as Rs.2 million and Rs.1.77 million respectively. As a result, the value of vehicles shown in the financial statements for the year under review had been overstated by Rs.1.77 million.

(p) Value of three vehicles had been brought to the accounts at book value and as well as revalued value. As a result value of vehicles had been overstated by Rs.6.2 million.

(q) Fixed assets valued at Rs 8,119.58 million received as grant for three projects had been capitalized during the year under review. However, relevant grant had not been amortized. As a result profit had been understated by Rs. 34.58 million.

(r) The cost incurred for the construction of boundary wall at the Head Office amounting to Rs.6.87 million had not been capitalized and as such the fixed assets as at the end of the year under review had been understated by similar amount.

*The Chairman of the Board had stated "that there is a legal case going on in the courts relating to the construction of the boundary wall ".*

(s) The value of vehicles shown in the financial statements as at the end of the year under review had been understated due to not valued and brought six vehicles released to the line Ministry during the year under review.

(t) According to the financial statements for the year under review the Value Added Tax (VAT) payable as at 31 December 2105 after set off the debit balance of Rs.6.09 million was Rs. 227.33 million. As such the VAT payable had been understated by Rs.6.09 million.

(u) An over provision of Rs. 4.32 million was made to the obsolete stocks in the financial statements. Hence, the profit for the year under review had been understated by similar amount.

(v) The interest of local bank loans for the year under review was Rs. 441.23 million. Out of that Rs.137.72 million and Rs.303.51 million had been paid during the year under review and in the year 2016 respectively. However, the amount payable as at end of the year under review had not been shown in the financial statements. In this result the work-in–progress and interest payable had been understated by Rs. 303.51 million.

(w) The interest income on investments totaling Rs.2.19 million for the bond received from the General Treasury had not been accounted as interest income for the year under review.

(x) Although the works had been completed, the advances received totaling Rs. 40.46 million had been remained without being set off against the expenditure in respect of 60 rechargeable schemes at Vavuniya and Jaffna Regions.

**2.2.3 Un-explained Differences**

The following differences were observed in audit.

(a) A difference of Rs.168.51 million was observed between the trade debtors shown in the financial statements and the age analysis of trade debtors which was submitted by the Commercial Division of the Board.

(b) Differences aggregating Rs. 2.81 million was observed between the debtor collection shown in the financial statements and the corresponding schedules furnished by the relevant Regional Support Centres.

(c) As per the information in relation to income from water sales is being maintained by the Commercial Division of the Board, significant difference of Rs.368 million was observed between the financial statements and the figures in the records maintained by the respective Divisions in respect of Meter Sales, Bulk Supply and Bowser Supply respectively.

(e) Differences totalling Rs.1.54 million were observed between ledger balances and the schedules balances in respect of two advance accounts of special projects.

(f) Differences of Rs.1.2 million and Rs. 934,349 were observed between the bank balances shown in the bank reconciliation statements and the balances shown in the cash books of two current accounts.

(g) Differences totalling Rs 212.52 million were observed between the imprest made on the bond received from the General Treasury shown in the financial statements of the Board and the individual financial statements of the eight projects.

(h) A difference of Rs.13.06 million was observed between the work-in-progress in respect of 2KR project implementing in the Vavuniya Region shown in the schedules and the ledger.

(i) A difference of Rs. 7.08 million was observed between book balance and system balance of stationary stock due to unit price was incorrectly mentioned in the computer system.

(j) Due to a difference between the physically verified balance and the computer system balance of the pipe equipment accessories, nuts, bold and loud, a shortage worth Rs.1.40 million and excess worth Rs. 442,870 million were observed.

(k) According to the cash flow statement, the loan obtained during the year under review was Rs.15,288.48 million. However, according to the schedules submitted to audit, it was Rs.15,180.44 million. Hence, an unexplained difference of Rs. 108.04 million was observed in audit.

(l) A difference of Rs 216.73 million was observed between the actuarial loss on defined retirement obligations shown in the financial statements and the valuation report prepared by outside party. Further, according to the actuarial valuation report the expenditure for the service cost and net interest on the defined benefit liability was amounting to Rs.622.19 million as at 31 December 2015. Nevertheless, as per the financial statements of the Board these was shown as Rs.391.42 million. Hence a difference of Rs.230.77 million was observed.

(m) A difference of Rs.1.19 million had been observed between the gratuity payments shown in the cash flow statement and total payments shown in the gratuity register.

(n) The differences aggregating Rs.543,556 were observed between system balances and values in the financial statements in respect of PVC pipes stocks.

**2.2.4 Un-reconciled Differences**

Even though there was a net difference of Rs.3,547.35 million observed between the work-in- progress balance shown in the financial statements and the corresponding balances shown in the individual financial statements of fourteen foreign funded projects, it had not been reconciled.

**2.2.5 Unidentified Balances**

The following observations are made.

(a) The unidentified grant balances of Rs.108.51 million were remained as at the end of the year under review at Vaunia Region. Out of that Rs.142.23 million remained in the accounts for over four years without being identified. In addition to that it was unable to identify the country which granted the amount of Rs.149.16 million included therein.

(b) Stocks adjustment accounts balance of Rs. 2.42 million had been remained at Kelaniya Region over three years without being cleared.

(c) The abnormal credit balances totalling Rs.5.66 million was observed in new connections debtor balance at two Regions. Further, the unidentified debit and credit balances totaling Rs. 5.78 million and Rs.1.74 million had remained in bank reconciliations statements of seven Regions without being identified.

(d) Unidentified long outstanding debit and credit balances of Rs. 236.23 million and Rs.154.33 million respectively shown under current assets and current liabilities in the statement of financial position had not been identified even as at 31 December 2015. In addition to that, there were several balances already being categorized as inactive and other unidentified balances aggregating Rs. 35.39 million existed as at 31 December 2015 as well.

(e) The Board had written off unidentified credit and debit balances aggregating Rs.230 million after obtaining approval from the Board of Directors without getting approval from the General Treasury as per the Financial Regulation 113.

(f) Although new connection control accounts should be zero at the year end, a debit balance of Rs.1.15 million and a credit balance of Rs.31.91 million had been remained in the accounts of three Regions. Further, a sum of Rs. 5.11 million and Rs. 2.19 million remained over three years and two years respectively in Trincomalee Region.

(g) Although internal cash transfer control accounts should be zero at the year end, the debit balances totalling Rs. 2,218.04 million were observed in these accounts.

(h) It was observed in audit that an income of Rs.87,982.86 million had been received in time to time during the year under review from the investments made in REPO. Out of that a sum of Rs.79,119.56 million and Rs. 9,207.51 million had been accounted in cash book and inter cash transfer control account respectively. Therefore, an amount of Rs.344.21 million had been transferred to Inter Cash Transfer Control account excessively.

(i) A sum of Rs.405.46 million had been considered as during the year payments in the actuarial valuation report for the calculation of net present value of defined benefit obligation as at 31 December 2015. As per the cash flow statement, it was shown as Rs.391.42 million. Therefore, a difference of Rs.14.04 million had been identified in audit.

### 2.2.6 Lack of Evidence for Audit

The following evidence as indicated against the each item shown below had not been furnished to audit.

| Item of Accounts | Value | Evidence not made available |
|---|---|---|
| ------------------------ | --------- | ------------------------ |
| | Rs. Million | |
| (a) Expenditure made for 2KR project for the period of 2009 to 2011 | - | Payment vouchers and expenditure details |
| (b) Acquisition of 79 lands for the Regional Support Centre of North | - | Lease agreements and title deeds. |
| (c) Trade debtors, debtor collection accounts, new connection debtors | 2,266.33 | Details schedules relating to 14 Regions |
| (d) Advances and deposits | 336.73 | Detailed schedules |
| (e) Net suspense account balance | 39.89 | Detailed schedules |
| (f) Inactive balances written off | 22.25 | Required information |

## 2.3 Accounts Receivable and Payable

The following observations are made.

(a) The balances of trade debtors, sewerage debtors, Colombo Municipal Council debtor, debtor collection and other debtors aggregating Rs. 1,419.43 million had remained for over a period of 3 years without being recovered.

(b) Short Term Deposits balance of Rs.14.64 million kept by the Board at the Road Development Authority (RDA), Provincial Road Development Authority (PRDA) , Colombo Municipal Council and Urban Councils had remained unrecovered since the year 2001.

(c) Advances given to than Ministry of Water Supply and Drainage amounting to Rs.4.38 million had not been settled even at the end of July 2016 and no action thereon had been taken by the Board. Further, the balance of Rs.15.23 million remained at end of the year 2014 had been transferred to the category of inactive balances without given any reason.

(d) Advances totaling Rs. 54.93 million granted to the contractors during the period from 2000 to 2013 had not been recovered even up to the year under review.

(e) Advances totalling Rs. 5.04 million granted for the special projects had not been settled by the relevant parties for over three years.

(f) Although the lands had been acquired, action had not been taken to recover the advances granted for acquisition of such lands amounting to Rs. 178.55 million during the period of 2009 to 2013.

(g) Value Added Tax (VAT) payable aggregating Rs. 36.82 million remained in the accounts for over three years without being remitted to the Commissioner General of Inland Revenue.

(h) The unclaimed input VAT amounting to Rs. 378.9 million relating to foreign and local funded projects was remained in the accounts without being claimed. Further, it was increased by 5595 per cent as compared with previous year. Moreover, VAT receivable amounting to Rs. 1 million relating to Trincomalee Region had remained over three years without being recovered.

(i) The advances received totaling Rs.876.78 million and Rs. 415.73 million on behalf of 106 and 60 rechargeable schemes respectively had remained for over 3 years and 2 years without being settled.

(j) The debit balance of Rs.333,333 and credit balances of Rs.6.27 million in respect of rechargeable works in Ampara Region remained in the accounts since 1999 without being cleared.

(k) The local loan balance of Rs.20.71 million relating to UDA project was remaining since 2011 up to the end of the year under review without being settled.

(n) The identified balance out of inactive balances of Rs.37.09 million had been remained long a period of time without being settled even up to 31 December 2015.

## 2.4 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

| Reference to Laws, Rules and Regulation etc. | Non-compliance |
|---|---|
| (a) Section 03 of the Finance Act, No.05 of 2005 | The construction Industry Guarantee Fund Levy of Rs. 55.9 million had not been deducted and remitted to the Commissioner General of Inland Revenue with regard to three projects. |
| (b) Section 08 of the Public Contract Act, No. 03 of 1987. | Large number of Contracts valued at Rs.5 million or more than that had not been registered within 60 days after the awarding them to the contractors . |

| | |
|---|---|
| (c) Department of Public Enterprises Circular No. PED/12 of 02 June 2003 | |
| Section 8.3.9 | (i) Nine motor vehicles had been released to the line Ministry and Rs.421,459 had been incurred by the Board for renewal of license and insurance policies of those vehicles contrary to the provisions in the Circular. |
| | (ii) Twenty nine employees had been released to the line Ministry and other Ministries during the year under review contrary to the provisions in the Circular. The salaries of 25 employees had not been reimbursed by the line Ministry. |
| (d) Department of Public Enterprises Letter No. PE/WS/NWSDB/GEN/ 2015 of 20 March 2015 | The Treasury bond worth Rs. 13.9 billion received to the Board from the General Treasury to meet the local fund requirements of the donor funded water projects for 2015. However, the interest income earned thereon amounting to Rs.1,001.54 million had been used for the operational and maintenance expenses of the Board. |
| (e) Guideline 3.2.1of the Government Procurement Guidelines | Competitive bidding procedures had not been followed in implementing the Water supply Project costing Rs.1,754.79 million during the year under review. |
| (f) Treasury Circular No. 02/2015 dated 10 July 2015 | 101 vehicles recommended for dispose during the year under review had not been disposed even up to 30 September 2016. |

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the working of the Board for the year ended 31 December 2015 had resulted in a pre-tax net profit of Rs.1,083.93 million as compared with the corresponding pre-tax net profit of Rs.1,425.29 million for the preceding year, thus indicating a deterioration of Rs.341.36 million in the financial result. The significant increase in staff cost as compared with the previous year was the main reason attributed for this deterioration in the financial results.

**3.2 Analytical Financial Review**

**3.2.1 Profitability**

The following observations are made in this correction.

(a) The gross profit of the year under review had decreased by 1.56 per cent as compared with the preceding year while administrative expenses had increased by 43.21 per cent as compared with the preceding year due to adjustments in anomalies of salaries and increased of salaries. As such an operating loss of Rs. 100.46 million had been recorded during the year under review. However, as a result of increase in the finance income by 456.24 per cent as compared with the preceding year the profit for the year had indicated a positive figure. In this favorable effect has provided sufficient strength to manage the increase of operating loss of the Board. In scrutinizing the financial results, the Board had earned Rs. 1,001.54 million as interest income from the investment of the Bond received from the General Treasury during the year under review which was out of the main activities of the Board.

(b) The contribution per employee of Rs.776,224 in the year 2014 had decreased by 1.08 per cent in the year 2015, while net profit per employee of Rs. 144,242 in the year 2014 had decreased to Rs. 108,872 in the year 2015 reflecting a 24 per cent decrease.

(c) The revenue of Rs. 45.89 per unit of water consumed in year 2014 had decreased by 1.08 per cent in the year 2015.

(d) The following observations were made at scrutinizing the regional income and expenditure report.

(i) According to the information furnished to audit, it was revealed that 16 Regional Offices had sustained a total operating loss of Rs.739.63 million during the year under review.

(ii) Operating income of 9 Regional Offices had been decreased by Rs.21.51 million or 4 per cent during the year under review as compared with the previous year.

(iii) Six profitable Regional Offices had been converted to loss making Regions during the year under review as compared with the previous years.

(iv) The actual operating income had been decreased by Rs.2,422.81 million or 22.7 per cent as compared with the budgeted operating income in respect of 17 Regional Offices.

### 3.2.2 <u>Significant Accounting Ratios</u>

Certain significant accounting ratios for the year under review and preceding year are given below.

| **Year** | **2015** | **2014** |
|---|---|---|
| Gross Profit Margin | 37.12 | 39.47 |
| Net Profit Margin | 5.53 | 7.62 |
| Current Ratio | 3.6 | 1.76 |

The following observations are made in this correction.

(a) According to the above information the gross profit margin and net profit margin had decreased by 2.35 per cent and 2.09 per cent respectively as compared with previous year.

(b) It was revealed that the Board had maintained excess working capital without being invested them in the long term investment sources and as such the working capital management of the Board was at very weak level.

### 3.2.3 Value Addition

Although the financial results for the year under review had dropped by 25 per cent as compared with the previous year, the contribution of the Board had increased from the year 2011 to the year under review by 77.76 per cent. The remarkable increase in employee remuneration, depreciation of property plant and equipment and the custom duty were the main reasons attributed for this favorable situation.

## 4 Operating Review

### 4.1 Performance

(a) **Production and Distribution of Clean Water**

The Board had produced 600 million cubic meters of clean water during the year 2015 as compared with the production of 575 million cubic meters in the year 2014, which indicated 9.48 per cent increase. The number of water supply connections given at the end of the year under review had been 121,843, thus indicating a decrease of 1.94 per cent as compared with that of previous year. The unit production cost had been increased as follows.

| Year | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Unit cost (Rs.) | 46.79 | 43.96 | 44.39 | 41.22 |

According to the above table the production cost of the unit in the year under review had been increased by 13.51 per cent as compared with the year 2012. The main reason for this increase was increase of staff cost and energy cost remarkably.

(b) According to the target set out for the year under review it had expected to give 15,028 connections during the year under review. However, it had given only 5,979 connections during the year under review. It was revealed that the 60 per cent of target had not being achieved.

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

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

| Description | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| --------------------------------- | ------ | ------ | ------- | ------- | ------ |
| Water Production (Cu. m.) | 600.14 | 575.00 | 547.0 | 525.6 | 490.0 |
| Water Consumption (Cu.m.) | 436.27 | 410.92 | 381.6 | 368.5 | 344.5 |
| Non-Revenue Water (Cu.m.) | 163.87 | 137.07 | 165.4 | 157.1 | 145.5 |
| **NRW as a Percentage of Water Production** | **27.30** | **28.53** | **30.24** | **29.89** | **24.64** |

The following observations are also made in this connection.

(i) Out of the quantity of water produced by the Board in the year 2015, non-revenue water represented 27.30 per cent due to leakage, unlawful connections, free supply, and administrative reasons etc. The portion of the non-revenue water in the city of Colombo in 2015 had been 46.03 per cent.

(ii) Even though the Board had taken certain course of action during the past period to minimize the unlawful connections and expediting the systems of repairing the temporary breakdowns of water distribution lines, the rate of non-revenue water in the current year as compared with the year 2011 had increased by 10.67 per cent.

(iii) As there is a need for the modernization of the main water distribution systems in the city of Colombo, which is older than 75 years, special attention of the Board is drawn to the urgency for the preparation and implementation of plans for that purpose. Even though two foreign funded Projects are being implemented in this connection at present, an adequate reconstruction of water mains had not been achieved therefrom.

The water distribution mains that should be replaced due to water leakages have not been specifically identified to date. Even though the proposals for the implementation of the several major projects have been made, their implementation is moving at a very slow pace.

(iv) 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.

(v) Although 6 projects with the estimated expenditure of Rs.3,100.17 million had been commenced to reduce the non-revenue water, considerable reduction could not be identified.

**(d) <u>Sewerage System</u>**

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 the achievement was not made available to audit.

**(e) Achievement of Targets**

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

(a) Although it was targeted to reduce the percentage of Non-Revenue Water, only three Regional Support Centers out of 12 only had been able to achieve that target. Even though it was expected to reduce the total Non-Revenue Water up to 40 per cent at Colombo city, the actual reduction was remained 46.16 per cent at the end of the year 2015.

(b) Although it was expected to increase total pipe water supply coverage and total sewerage connections coverage up to 50 per cent and 2.4 per cent of total population, the actual coverage were only 45.9 per cent and 2 per cent respectively at the end of the year 2015.

**4.2 Implementation of Foreign Funded Projects**

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

(a) Most of the large-scale foreign funded projects had not been completed on due dates and cost had highly escalated due to additional works and price increases resulting from the extension of the project period.

(b) Uniform accounting policies had not been followed for the preparation and presentation of financial statements of such projects.

**(c) Jaffna Kilinochchi Water Supply and Sanitation Project**

The following observations are made.

(i) A separate Loan Agreement had been entered into between the Government of Sri Lanka and the Agence Francaise de Development in order to provide US$ 48 million equivalent to Rs. 5,363.04 million for the construction of new water intake lift station, treatment plants, pumping station at Iranamadu tank and supplying and laying of raw and treated water transmission main to the Jaffna Municipality area. Out of that, the Project had utilized a sum of Rs. 124.64 million or 2.3 per cent as at the end of the year 2015. However, the loan had been cancelled in 06 October 2015 due to abandonment of the activities of the Project. As a result, a compensation of Rs. 11.90 million and appraisal fees of Rs. 15.2 million had been paid by the project. In addition to that a commitment charge of Rs. 57.80 million had been paid on underutilization of funds from 2012 to 2015.

(ii) A sum of US$ 35.64 million equivalent to Rs. 3,982 million had been allocated by the Project for the purpose of improvement of sewerage and sanitation systems in Jaffna Peninsula, including construction of a building for sewerage collection system, sewerage treatment plant, an effluent sea outfall and providing maintenance equipment. The designing works and bidding process for the construction of sewerage treatment plants and sewerage reticulation had been completed. However, the construction works had been suspended subsequently in 2016. Therefore, the information collected through household and topographic surveys conducted in this connection in 2015 by incurring a cost of Rs. 24.30 million would not be used for intended purposes.

(d) **Ratmalana / Moratuwa and Ja- Ela / Ekala Wastewater Disposal Project**

The following observations are made.

(i) The contract on wastewater disposal system of Ratmalana / Moratuwa awarded in 2008 had been terminated in 2013 as the contractor was bankrupt and failed to continue the contract. The Project had not taken action to obtain confirmations on performance bond and guarantees on retention money from a foreign commercial bank. Further, a sum of Rs. 3.55 million had been spent to obtain legal opinion from an international firm. However, action had not been taken to commence legal proceeding against the contractor up to April 2016.

(ii) In addition to the above, action had not taken to recover the overpayment of US$ 6.74 million made to the contractor .Further a sum of Rs.18.39 million had been claimed by the Sri Lanka Telecom and the Board (NWSDB) on damages made to properties of the respective entities

(iii) It was further observed that the Project and the Board had spent a sum of Rs.23.75 million to restore the condition of roads based on complains made by the residents and road users who suffered on delay in completion of the construction works.

(vi) The expenditure aggregating Rs. 37.44 million had been incurred by the Project for construction of the wastewater treatment and disposal system for Madiwala Link Housing Scheme, design and building contract for the construction and completion of quarters of Soysapura for NWSDB employees and payment of Vasiri construction were identified as not related to the Project objectives.

(e) **Dry Zone Urban Water and Sanitation Project**

The following observations are made.

(i) A sum of Rs. 3.22 million released to the Department of Agrarian Development for revamped the lands. However, the money had misused by the than Assistant Commissioner of the Department. Therefore, the works to be completed by September 2014 had not been completed even up to March 2016. Due to delays in completion of the above works, the compensation amounting to Rs. 9.91 million had to be paid additionally, out of the contribution received from the Government of Sri Lanka for the payment of compensation to the farmers in respect of loss of paddy cultivation in 2014 and 2015**.**

(ii) It was observed that a contract at a cost of Rs. 13.27 million had been awarded for clearing and development of other infrastructure facilities in resettlement areas in Peru Aru and an additional payment of Rs 2.81 million had also been made under a variation order. Further, the costs on resettlement activities required to be met from the contribution of the Government of Sri Lanka had been incurred out of the proceeds of the Loan.

(iii) The water transmission and distribution system in Mannar and Vaunia districts awarded at a value of Rs.598.93 million in May 2013 had shown a slow progress of 66 per cent as at 31 December 2015. Further, the defects of the pipes laid on construction of water transmission and distribution system had been identified in September 2014 and directed the contractor to replace the pipes with inferior quality. However, the contractor had not taken action to replace the pipes even as at 31 May 2016.

**(f) Gampaha, Attanagalla and Minuwangoda, and Greater Dhambulla Integrated water supply project (Unsolicited)**

The following observations are made.

(i) The initial estimated cost of US $.172 million in 2012 had increased up to US $229.5 million in the year 2014 at the time of contract awarded. According to the company profile, the contractor is specialized in power sector not in the water supply sector. The institute of SEMA had advised to the Board that it should take into consideration before awarded the contract as the contractor was alleged various disputes at the construction of the phase 1 of the Norrochchole Power Station. However, without considering the above instructions, the contract was awarded to the same contractor on 15 May 2013 by the Board. It was further observed that the Contractor had been selected contrary to Guideline 3 of the Government Procurement Guidelines.

(ii) Contract activities valued at Rs.1500 million carried out up to December 2015, before confirming the financial availability in terms of Guideline 8.7.1 (a) of the Government Procurement Guidelines and the sub criteria 1.6(c) and 8.1(a) of the Contract Agreement. In the meantime, the principle contractor had been subcontracted the works valued at US $ 64 million to the Board. Further, before enforcement of the loan agreement 10 per cent advance of Rs.20.90 million had been given to the Board by the principle contractor in respect of sub contract activities.

(iii) A sum of Rs.96.2 million had been spent contrary to the objectives of the project and out of that a sum of Rs.77 million had been spent for the payment on Ratupaswala water pollution incident in contrary to the objective of the project. Further, an overhead of Rs.13.85 million had been paid in respect of expenditure which was incurred contrary to the objectives of the project. Although the activities of the project informed to suspend, the pipes stock valued at Rs. 2.04 million own to the Board given to the project.

(iv) A sum of Rs. 56.05 million had been spent for the procurement of four crew cabs for the purpose of Greater Dhambulla Water supply Project (Unsolicited). However, the invoice value of those cabs was Rs. 13.32 million. Hence, the additional cost of Rs. 42.73 million had been paid due to lack of properly defined specifications including country of origin. In addition to that the defect liability period of machine, equipment, pumps and accessories valued at US $ 4.24 million imported by the contractor before commencement of the project had been expired due to taking long period of time to commence the Project works.

**(h) Local Bank Loan Water Supply Projects**

The following observations are made.

(i) The contract of Laggala New Town Water Supply Project had been awarded in contrary to Guideline 1.2.1 of the Government Procurement Guidelines. According to the paper advertisement, the value of the contract was Rs.2,500 million. Nevertheless, it had been awarded for Rs.4,495,87 million or increasing the initial contract price by 80 per cent. The reasons for this increase had not been furnished to audit. The contract agreements and performance bond according to Guideline 5.4.9 of the Government Procurement Guidelines had not been furnished to audit. In addition to that the bid evaluations had been done prior to the technical and financial evaluations.

(ii) The contract of Madirigiriya Water Distribution – Phase 11 project had been awarded without calling competitive biddings in terms of Guideline 3.2.1 of the Government Procurement Guidelines. The initial price of the contract increased by Rs.200.03 million or 15 per cent without changing scope and reasons for this increase had not been explained to audit.

(iii) The initial cost of the Galagedara Mawathagama Water Supply Project amounting to Rs.700 million had been increased up to Rs.3,064 million or 338 per cent at the time of awarding the contract and the reasons for this increase had not been furnished to audit. The competitive bidding procedure had not been followed for this contract as per Guideline 3.2.1 of the Government Procurement Guidelines. Further financial capability of the contractor had not been considered before awarding the contract in terms of Guideline 8.7.1 of the Procurement Guidelines.

(iv) Although the engineer's estimate of the Colombo city water supply improving project- phase 01 was Rs.2355.55 million, the contract had been awarded to the value of Rs.2792.06 million with 17 per cent increase. The competitive bidding procedure had not been followed as per Guideline 3.2.1 of the Government Procurement Guidelines. Although the Standard Cabinet Approved Procurement Committee (SCAPC) had recommended getting approval for revised engineer estimate from the Department of National Planning, information whether such an approval obtained or not had not been furnished. According to the interim payment Certificates (IPC) applications, a sum of Rs.49.31 million had been paid to the contractor for ten items before completion of the activities. Further, according to the contract agreement 10 per cent had not been deducted from the IPC as retention. Hence, it was observed that over payment of Rs. 35.20 million had been paid from IPC5 without comply with the above requirements.

### 4.3 Management Inefficiencies

The following observations are made.

(a) Actions had not been taken to correct the stocks deficit shown in stocks adjustment accounts amounting to Rs.2.42 million

(b) An additional cost of Rs. 1.25 million had to be incurred as vehicle rent for four vehicles used by the Dry Zone Water Supply and Sanitation Project due to non-using of agreed number of kilometers.

### 4.4 Idle and Underutilized Assets

The following observations are made.

(a) The water meters and brass items valued at Rs.10.63 million had been remained in stocks as slow moving items for a long period of time.

(b) The PE accessories, nut and bold, loud etc. valued at Rs.20.72 million received under Tsunami grant remained at C stores of the Head Office as non-moving items.

(c) The DI pipes valued at Rs.4.32 million, Rs. 26.28 million and Rs. 9.71 million had remained at C stores at the Head Office as non-moving, slow moving and obsolete stocks respectively.

(d) According to audit test check, non-moving stocks balance totaling Rs. 67.50 million in respect of the six water supply schemes had remained for a long period of time. It represents 11 to 60 per cent of the total stocks balance of those water supply schemes.

(e ) It was observed that non-moving stocks valued at Rs.397.60 million and slow moving stocks valued at Rs. 346 million had remained in stocks as at 31 December 2015 and it represent 6.7 per cent and 6 per cent respectively of the total stocks value of the Board. Further, it was an increase of 8 per cent and 5 per cent respectively as compared with the previous year.

(f) The stocks valued at Rs. 9.5 million had remained at Adampan, Mannar and Vavuniya stores for a long period of time without being utilized for any purpose.

(g) The three water supply schemes valued at Rs.1.8 million had been abandoned without being achieved the objectives of the projects.

(h) Two Reverse Osmosis (RO) plant valued at Rs.2.67 million located at Karawddhi and Narandanee in Jaffna had been abandoned.

(i) Billing had not done for water consumption of 1,008,539 cum3 by the National Housing Authority during the year under review.

### 4.5 <u>Matters of Contentious Nature</u>

The following observations are made.

(a) A land had been purchased by the Board to construct the Wastewater Treatment plant under Galle Area Wastewater Disposal Project. The Department of Valuation valued this land as Rs .71.5 million, and 30 per cent advance of Rs.21.45 million had been given on April 2014 to the land owner. The land already occupied the some families and existing owner had removed the soil from the land after receiving the advance. Without considering the ownership of the land, advance had been given to the seller. Proper actions had not been taken in this regard.

(b) Greater Galle Water Supply Project had acquired a land by incurring Rs. 16 million for the construction of Hapugala Water Refinery Plant in 2002, and the land was not utilized for the intended purpose to date due to large rock was found after the acquisition of the land while investigation for the constructions therein.

(c) The income of excavated rocks of the projects should be transfer to the Sri Lankan Government according to Section 26 of Mines and Mineral’s Act No 33 of 1992 . The rocks valued at Rs.79.97 million excavated by two projects had not been transferred to the Government income.

(d) The stocks in transit balance amounting to Rs.7.3 million shown in the financial statements as at 31 December 2015 and out of those stocks valued at Rs.5.8 million had been remained over one to three years period without being investigated.

(e) The imported stocks in transit, balance amounting to Rs.140.41 million shown in the financial statements as at 31 December 2015 and out of that stocks valued at

Rs.29.40 million had been remained over a period of two years without being investigated.

(f) Although stocks received and stocks issued should be adjusted to the stock balance prior to the stock verification period, the net debit balances totaling Rs.806.50 million and net credit balances totaling Rs. 538.95 million had been adjusted to the stocks balance after the stocks verification period due to non-updating the stocks books.

### 4.6 Human resource management

The following observations are made.

(a) The Board had not taken action to fill the vacancies during the year under review remained in the main operational level posts such as the Managers / Chief Engineer, Engineer (Civil) , Middle Level Technical (ML- T) Clerical and Allied Categories, Other Skilled Grade and Semi-Skilled etc.

(b) The Board had recruited 508 multi skills trainees on casual basis during the year under review without being obtained the approval from the Department of Management Services. The Director General of the Department of Public Enterprises and Committee on Public Enterprises held on 7 April 2016 directed to stop the recruitments. In contrary to the above directions the Board of Directors had decided on 19 April 2016 to permanent the said trainees.

(c) Action had not been taken to finalize the Scheme of Recruitments and Promotions from the Department of Management Services, as specified in the Management Services Department's Circular No 30 dated 22 September 2006.

### 4.7 Apparent Irregularities

The cash frauds of Rs. 246.66 million committed at Trincomalee, Kalaniya and Ampara Regions during the period of 1999 to 2006 had not been recovered from the persons responsible even up to 31 December 2015.

### 4.8 Operating Weaknesses

According to the Cabinet Decision No. 15/0243/614/004 dated 02 April 2015, before increasing the salaries of employees of the Board, it should be submitted a cost saving proposal with the concurrence of the Trade Unions and the higher management to recover the additional cost of the salary and as instructed, the Board had prepared a cost saving proposal including 12 expenditure items. Further, it had been agreed to submit the monthly progress reports of the cost saving proposal to the Secretary of the line Ministry. However, information had not been furnished to the Secretary of the line Ministry. Although it was estimated to save the cost of Rs. 1,483 million under above 12 items to recover the salary increase of the year under review, it had not been furnished details to confirm the achievements.

## 5. Accountability and Good governance

### 5.1 Internal Auditing

The following observations are made.

(a) According to the information made available for audit, the post of Internal Auditor and seven other internal audit staff had not been filled even in the year under review

(b) As per the Internal Audit Plan for the year under review, it was identified seven organizational objectives and the twenty four subject areas. However, adequate consideration had not been made in respect of ten subject areas and no single query issued in respect of seven subject areas.

(c) The adequate attention had not made in carrying out the internal audit activities in terms of Internal Audit Guide Circular No DMA/2009 (i) of 09 June 2009 issued by the Department of Management Audit of the General Treasury.

## 6. Systems and Controls

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

| Control Area | Observation |
|---|---|
| (a) Accounting | Failure to reconcile the control accounts and work in progress balances. |
| (b) Assets Management | (i) Duplication of same fixed assets in different Regions. |
| | (ii) Not reviewing and reinstating the value of intangible assets. |
| | (iii) Un-capitalizing the fixed assets even though the projects had been completed. |
| | (iv) Failure to investigate about the work in progress balances remained unchanged for a long period of time. |
| (c) Stock Control | (i) Un-reconciled the physically verified balances along with the ledger balances |
| | (ii) Prevailing differences between the computerized system balances and physically verified balances |

| | |
|---|---|
| | (iii) Prevailing long outstanding stocks in transits balances.<br>(iv) There were long unmoving and slow moving stocks item remained in the stores. |
| (d) Control over Journal Entries | (i) Non compatible in numbering the journal vouchers at ledger and journal vouchers.<br>(ii) Not entered the narrations in some journal vouchers. |
| (e) Project Administration and Performance Review | (i) Failure to complete the projects in expected time period and extending the time period of most projects without valid reasons.<br>(ii) Unable to correctly carried out the feasibility studies.<br>(iii) Non-compliance with Government procurement guidelines<br>(iv) Cost had highly escalated due to time extension and weaknesses in fund utilization. |
| (f) Accounting of Rechargeable scheme | Advance received for the rechargeable schemes remained in the custody for long a period without being set off relevant expenditure incurred. |
| (g) Personnel Management | (i) Releasing of human resources to other institutions without required authority.<br>(ii) Recruitment of employees exceeding the approved cadre and without obtaining approvals from General Treasury. |