

Water Resources Board - 2015

The audit of financial statements of the Water Resources Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 as amended by Act, No 42 of 1999. 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

The 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 Auditing 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 judgement, 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 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 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 the 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 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 Water Resources Board as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Public Sector Accounting Standards

In accordance with the Sri Lanka Public Sector Accounting Standard 07, depreciation on an asset begins when it is available for use. However, the Board had followed the basis of not depreciating for the year in which the asset is purchased, and depreciating in the year of disposal with respect to the whole year.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The value of 06 vehicles donated by the Treasury, and the Sri Lanka Army and the Water Resources Secretariat in the years 2012 and 2013 respectively, had not been valued and shown in the financial statements .
- (b.) As the cost of living allowance had not been taken into consideration in computing the contribution to the Employee Provident Fund relating to the period 2006-2014, it had been identified in the year under review that contributions and surcharges amounting to Rs.25,268,406 and Rs.12,634,203 respectively had remained payable. However, that liability had not been brought to accounts.

2.2.3 Lack of Evidence for Audit

Confirmation of balances in respect of debtors totalling Rs.12,350,395 and service advances, had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a.) Of the debtor balances amounting to Rs. 3,835,577, a loan balance of Rs.212,836 had been older than 3 years as at 31 December of the year under review. However, effective action had not been taken to recover those balances.
- (b.) Even though a period of more than a year had elapsed as at 31 December of the year under review since the service advances amounting to Rs. 2,707,906 had been obtained for providing services, the Board had not taken action to execute the

relevant activities. Furthermore, action had not been taken to settle the advances amounting to Rs.96,432 of which the relevant activity had been completed.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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 Sections 14 (1) and 14(3) of amended Act, No 42 of 1999	Even though the Advisory Committee should advise the Board on any or all of the matters set out in the Act, the Committee of the Board had not met during the year under review. Furthermore, Eleven research studies conducted during the year under review had not been brought to the notice of the Committee for its advice. Therefore, the research expenditure of Rs.27,896,000 incurred thereon had not been approved by the Advisory Committee in terms of provisions in the Water Resource Board Act.
(b.) Treasury Circular, No. 842, dated 19 December 1978.	Registers of Fixed Assets had not been maintained for non-current assets totalling Rs.899,569,000
(c.) Paragraph 9.7 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	Without obtaining the approval of the Secretary to the Treasury, 29 officers of the Board had been paid a sum of Rs.2,229,667 in the year under review, and a sum of Rs.1,716,000 had been paid to 17 officers in the preceding year as special allowances.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year ended 31 December 2015 had resulted in a deficit of Rs.99,400,000 as compared with the corresponding deficit of Rs.39,063,000 for the preceding year, thus indicating an increase of Rs.60,337,000 in the deficit for the year under review as compared with the preceding year. The increase in the total expenditure by a sum of Rs.107,711,000, and the decrease in the income received from the operating activities by a sum of Rs.9,935,000 had mainly attributed to the increase in the deficit.

In the analysis of financial results for the year under review and the 04 preceding years, a deficit in the financial result was indicated from the year 2011 up to the year under review. Nevertheless, in considering the employee remuneration, and the depreciation on non-current assets, the contribution of the Board that amounted to Rs.97,199,000 in the year 2011, had improved continuously in a positive manner, and reached to Rs.158,170,000 in the year under review.

4. Operating Review

4.1 Performance

(a.) Accomplishment of the Objectives

The objectives of the Board set out in Section 12 of the Water Resources Board (amendment) Act, No.42 of 1999 are as follows.

- (i) The control, regulation , development, and prevention of pollution including the conservation and utilization, of the water resources of the country;
- (ii) The formulation of national policies relating to the control and use of the water resources of the country with the objectives of , the multi-purpose development and use of water resources, the short-term and long-term provision of water resources for domestic and industrial supplies, the control of salinity, and any other like objective.
- (iii) The analysis of reports based on investigations, statistical surveys, plans and proposals relating to the ground water resources of the country made by Government institutions.
- (iv) Any other suitable measures to be taken by the Government for the proper control and economic use of groundwater.

The Board had failed to take substantial measures to achieve the aforesaid objectives.

- (b.) Even though it had been planned to conduct research studies in respect of 6206 units under 13 subjects through the annual estimate for the year under review, the Board had conducted only 2808 units according to the progress reports. Therefore, the plans that had not been implemented, ranged from 16-100 per cent.

(c.) Deficiencies in Implementing Research Studies

The following observations are made.

- (i) Eleven research study projects had been commenced during the years from 2010 to 2015 in order to examine the quality of water and its impact on the general public at an estimated cost of Rs.410,181,400, and a sum of Rs.84,403,529 had been utilized therefrom as at 31 December 2015. Despite being scheduled to complete 09 of those research studies by 31 December 2015, the expected objectives of the projects had not been achieved as it had failed to implement the entire 09 projects as expected.
- (ii) The previous research experience of the officers responsible for the research studies, and their academic and professional qualifications had not been included in the research proposal. No research study whatsoever had been

supervised by a researcher skilled and experienced in the relevant area of research.

- (iii) A Research Officer should have been appointed on full time basis in order to ensure successful completion of research studies. However, the Board had appointed its General Manager as the Research Officer with respect to all research studies. As he had to be involved in researches in addition to his usual duties, the research studies could not be completed within the scheduled duration.
- (iv) Of the provisions allocated by the Treasury in the year under review for research studies, a sum of Rs.246,161 had been utilized on the expenses of the Board.

4.2 Management Activities

The following observations are made.

- (a.) A female Geologist had proceeded abroad in the year 2005 for a scholarship under the condition of a mandatory service period of 06 years, and a surety bond of Rs.1,308,699. After the scholarship , and prior to the completion of the agreed period of service, she had been released to another institute subject to a mandatory service period of 04 years under a surety bond of Rs.435,600. Despite being permanently released from the service of the Board with effect from the year 2011 whilst she had failed to act according to the 02 agreements entered into, action had not been taken even by the end of the year under review to recover the surety of Rs.1,744,299 that remained receivable by the Board in terms of the agreements.
- (b.) The Divisional Secretary of Kalpitiya had paid a sum of Rs.1,751,358 to the Board in the year 2006 for the construction of a deep well under "Karambe" drinking water Project. Due to water of the well is being salty, the Operations Manager of the Board had agreed to deduct the sum of Rs.536,130 that had been incurred on the pump test carried out on 03 deep wells in that area, from the advance amount obtained by the Board, thereby paying back the balance amounting to Rs.1,215,228. Nevertheless, action had not been taken even up to the end of the year under review to pay back that sum to the Divisional Secretary, Kalpitiya.

4.3 Idle and Underutilized Assets

Even though it had been identified by the reports of the Boards of Survey for the years 2013, 2014, and 2015 that the final stock shown in the financial statements of the year under review included unused and non-moving stores goods valued at Rs.66,956,871, action had not been taken properly in that connection.

4.4 Personnel Administration

The following observations are made.

- (a.) Even though the approved cadre had been 365 employees, it had been confirmed to audit by the letter No. ජසම/අවි/32-2016 of the Chairman dated 19 January 2016, that the approved cadre had been 380. Hence, 15 employees had been recruited in excess of the approved cadre without approval of the Department of Management Services.
- (b.) Contrary to the scheme of recruitments and promotions of the Water Resources Board, 34 employees had been recruited in the year 2015. In inspecting the personal files of those employees, there had been 06 instances in which job applications relevant to the post had not been furnished, 02 instances in which required qualifications had not been fulfilled for the posts of driver, and 06 instances where medical certificates had not been furnished, and it had not been confirmed that the educational certificates provided had been true copies.
- (c.) Contrary to the scheme of recruitments, all employees of the Board had been provided with salary increments and promotions without conducting efficiency bar examinations.

4.5 Assets not Vested Properly

Action had not been taken to vest the lands and buildings where the head office of the Board, *Ratmalana* and *Vauniya* workshops, and circuit bungalow in *Anuradhapura* had been located. New buildings had been constructed, and the existing buildings on those lands had been renovated by the Board.

4.6 Resources of the Board Released to Other Government Institutions

Contrary to Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02, June 2003, a staff recruited to execute the functions of the Board comprising Administration Manager (contract), Technical Officer, Labourer, Driver, and 02 Office Assistants, had been released to other Government institutions irrespective of the functions of the Water Resources Board. Salaries and allowances of Rs.816,897 paid to those employees during the year under review, had been incurred by the Board.

5. Accountability and Good Governance

5.1 Internal Audit

Even though an Internal Audit Division had been established, an adequate number of officers qualified enough to conduct audits on the functions of the Board associated with technological and engineering techniques, had not been appointed.

5.2 Budgetary Control

The following observations are made.

- (a.) As variances ranging from 20 – 810 per cent were observed in respect of 176 units between the budgeted and actual income and expenditure, the budget had not been made use of as an effective instrument of management control.
- (b.) The income from the *Chunnakam* Project had not been identified in preparing the budget, and an income of Rs.1,800,000 had been received therefrom in the year under review.

5.3 Tabling of Annual Reports

The annual reports should have been tabled in Parliament within 150 days of closure of the accounting year in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. However, the annual reports for the years 2012 and 2013 had not been tabled in Parliament even by 31 July 2016.

6. Systems and Controls

Deficiencies 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 and special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

(a.) Accounting	Failure to follow the Public Sector Accounting Standards, and take over the assets.
(b) Control of Operations	Failure to take actions in order to achieve the financial and physical performance as expected, and conclude the research studies as scheduled.
(c) Control of Creditors and Debtors	Failure to take actions effectively for the settlement.
(d) Assets Control	Failure to record the non-current assets.