

Water Resources Board – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Water Resources Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board ;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
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Even though the policy of valuation of stocks of the Board is the First In First Out (FIFO) System, the said system had not been followed in the issue of stocks at the Ratmalana store.	Action will be taken to avoid the shortcomings of the First In First Out System in the valuation of stocks. This situation has arisen specially in the valuation of balance stocks of consumables such as fuel, lubricants and PVC which are issued quickly.	An accurate policy should be followed in the valuation of stocks.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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The stocks of wires and lubricants amounting to Rs.564,057 and Rs.104,208 respectively which remained at the Ratmalana store had not been brought to account. Moreover, a difference of Rs.135,447 was observed between the physical balance of 10 Items of lubricants and grease and the balance in stock ledgers.	Action is being taken to rectify errors that have occurred in the computation of stocks in the preparation of accounts for the year 2019. Moreover, a difference between the physical balance and balances of stock ledgers had not been identified at the closing stock verification of the year and action will be taken to carry out an internal audit in this connection and to identify existing weaknesses.	The valuation of stocks should be carried out accurately.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
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A sum of Rs.7,272,211 out of debtors balances valued at Rs.26,855,874 as at the end of the year under review were balances older than one year and a sum of Rs.737,044 out of one year old loan balances had not been recovered even by 07 June 2019.	Action is being taken to recover debtors balances older than one year.	Loan balances should be recovered in an updated manner.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
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Out of service advances amounting to Rs.36,330,490 made available by 156 persons and institutions for rendering of various services, a sum of Rs.17,674,325 had lapsed over a period of one year and out of that balance lapsed over a period of one year, the Board had failed even by 30 June 2019 to render the services for service advances of Rs.9,247,612.	Out of service advances remained as at 31.12.2018, the balance lapsed over a period of one year had decreased up to Rs.9,247,612 by 30.06.2019 and attention has been paid for early settlement of those balances as well.	Action should be taken for speedy rendition of services agreed to be rendered and thereby settling advances obtained.

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 14(1) of the Water Resources Board Act, No.29 of 1964 and Section 03 of the Amendment Act, No.42 of 1999	(i) In terms of the Amendment Act, a consulting committee of 18 should be established. However, contrary to that, a consulting committee of 13 had been established.	Action has been taken to pay attention thereon at future committee meetings and to amend the Act to suit present needs.	Action should be taken in terms of provisions in the Act.
	(ii) A sum of Rs.148,662,259 had been spent for research studies on environmental impacts contrary to Section 12(1) of the Act.	In terms of the Act, action will be taken in future to refer reports on research studies on environmental impacts to the consulting committee and to obtain necessary instructions.	Action should be taken in terms of provisions in the Act.
(b) Section 3.2 of Chapter IV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	In the recruitment of a casual or substitute officer authority should be duly obtained. However, action had not been taken accordingly.	These recruitments have been made for the continuous operations. Nevertheless, reference has been made to the Department of Management Services for approval in filling vacancies of the approved cadre by now.	Action should be taken to make recruitments after obtaining approval.

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| (c) Financial Regulations 316 and 341 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | In terms of Financial Regulations 316 and 341, five types of Counterfoil Books obtained for the use of the Board had not been safely stored in the Ratmalana store. | Action is taken to store the Counterfoil Books safely, obtained for the use of the Board and to regularize the issue of those books. | Action should be taken in terms of Financial Regulations |
| (d) The Gazette Extraordinary No.2010/23 of 16 March 2017 | (i)Approval of the Water Resources Board had not been obtained for constructing cultivation wells for agricultural purposes with a diameter of 4 metres or more and tube wells required for commercial, agricultural and industrial purposes. | Public notices have been published for registration of industries carried out using ground water, in the Board and getting water capacity tests and to install water meters. Moreover, action will be taken to carry out registration activities properly. | The procedure of granting relevant approval before constructing tube wells, should be carried out properly and efficiently. |
| | (ii)Even though all institutions engaged in constructing tube wells should be registered in the Water Resources Board, such registration had not taken place. | Newspaper advertisements had been published for registration of institutions engaged in constructing tube wells and 190 institutions have been registered at present and 198 drilling machines have been identified thereby as suitable for drilling purposes. | Action should be taken to regularize registration activities. |
| | (iii)The Board had not issued quality reports on the water source relevant for all projects obtaining | Newspaper advertisements have been published informing to be registered in the Board and 294 | Issue of quality water reports and supervision should be regularized. |

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| | underground water of 30,000 litres per month for commercial agriculture or industries. | institutions have been registered by now. Moreover, regulation activities relating to the water source by carrying out water capacity tests and installing water meters are carried out by now. In the performance of above functions, legal provisions are inadequate. As such, attention has been paid to amend the Act by now. | | |
| (e) | Trade, Custom Duty and Investment Policies Circular No.01/2010 of 10 December 2010 | Contrary to the Circular, a motor car permit had been granted to the Internal Auditor who has not completed a service period of 12 years. | According to the documents submitted by the relevant officer, arrangements have been made to grant a motor car permit since he has served in a post of executive level for 12 years. | Action should be taken in terms of provisions in the Circular. |
| (f) | Ministry of Public Administration and Home Affairs Circular No.25/2014 of 12 November 2014 | In the recruitment of employees on temporary, casual (daily), substitute, contract or relief basis, action had been taken contrary to the Circular. | Attention of the Department of Management Services had been drawn on the settlement of problems relating to the staff and Schemes of Recruitment. | Action should be taken in terms of provisions in the Circular. |
| (g) | Department of Management Services Circular No.DMS/G2/15/04 of 18 January 2012 | The approved cadre had been increased by 16 officers contrary to Department of Management Services Circular No.DMS/G2/15/04 of 18 January 2012. | Department of Management Services had been drawn on the settlement of problems relating to the staff and Schemes of Recruitment. | Action should be taken only to recruit staff that has been approved by the Department of Management Services. |

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.33,658,000 as compared with the corresponding surplus of Rs.6,943,000 for the preceding year, thus observing an improvement of Rs.26,715,000 in the financial result. The increase in the income by Rs.12,250,000 in the year under review and the decrease in the expenditure by Rs.14,465,000 in the year had been the main reason for this improvement.

2.2 Analysis of Tendencies in Main Items of Income and Expenditure

According to the financial statements presented to Audit, other operating expenditure had increased by Rs.7,868,000 in the year under review as compared with the year 2017 and as a percentage, it had taken a value of 77 per cent. The increase in losses on disposal of assets, bad debts and fines and surcharges had resulted therefor.

2.3 Analysis of Ratios

Type of Ratio	2018	2017
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Liquidity Ratio		

Current Ratio	6.25:1	2.79:1
Quick Ratio	3.16:1	0.92:1

The Board had not carried out an evaluation on the appropriate working capital requirement which should be available according to the nature of the operations of the Board and introduced an appropriate working capital management system. Accordingly, 6.25 current assets had been maintained for settling 1 current liability in the year under review. As a result, a sum of Rs.218 million had been invested in current assets without analyzing.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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The Board had prepared the report on physical and financial performance relating to the year under review. However, the financial performance relating to each activity in the Action Plan had not been included in the said report.	Separate computation of the financial performance relating to the activity in the Action Plan had been difficult since several activities had been carried out parallel to each other. Action will be taken to pay further attention	The financial performance should be indicated in the Action Plan.

thereon and for regularization.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
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(a) Action had not been taken to vest the Head Office premises used by the Water Resources Board, the land on which the Ratmalana mechanical site belonging to the Irrigation Department is located and the land on which the circuit bungalow located in Aluthnuwara in Anuradhahapura owned by the Government, in the Board and a sum of Rs.20.3 million had been spent for the building repairs thereof.	Arrangements have to be made for repairs of office buildings of the Board maintained in the lands owned by the Government, when necessary. Even though attempts had been made to vest those lands in the Board, it has been difficult to make arrangements therefor. Specially, the roof of the Ratmalana main worksite complex was about 100 years old and in a dangerous situation and a capital expenditure has been incurred under the dam safety project in repairing this roof for maintaining an average stock exceeding Rs.150 million and for the safety of other mechanical equipment.	Action should be taken to vest the assets used by the Board, owned by external institutions.
(b) Water tank stands for which the value was undecided and 21 plastic water tanks had remained in the Monaragala Provincial office premises and it had not been indicated in the financial statements as well.	Action has been taken by now to include these water tanks used for water supply purposes at instances of drought, in inventories and action will be taken in future to assess the values thereof and bring them to account.	All assets should be recognized and the values thereof should be brought to account.
(c) Out of 50 water pumps purchased at Rs.8,941,250 in May 2017, only 06 had been used by July 2019. The guarantee period of 44 unused water pumps had	These water pumps had been purchased for use in situations of disasters and floods and they have been prepared for use at such situations.	Purchases should be made by identifying the requirement.

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| (d) Eleven and 03 generators valued at Rs.2,638,900 and Rs.2,250,000 respectively purchased in the year 2018 had remained idle even by July 2019. | Action has been taken to keep generators to be used in situations of disasters and floods. | Purchases should be made by identifying the requirement and only if they are being used. |
| (e) Fifty water pumps received from the Department of Social Services in the year 2009 had not been made use of and had remained idle in stores without being tested whether they are operative or inoperative. | The water pumps received from the Department of Social Services had been made use of in various flood situations and attention will be paid this year to test their operation and to dispose of unusable pumps. | Action should be taken to use the said pumps or to make other arrangements if there is no requirement or if cannot be made use of. |
| (f) After the retirement of the officer on 01 August 2018 who performed the duties on the Rig No.03 drilling machine, the said machine and all equipment relating thereto had remained idle in the Ratmalana mechanical workshop due to lack of a trained officer. | Trained Drilling Officers for operating of drilling machines of the Board are available with the Board at present and the No.03 drilling machine has been sent to the Ratmalana workshop for repairs. | Necessary action should be taken to carry out repairs and to make use of it. |

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
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(a) Even though the approved cadre for the Ratmalana main stores and the mechanical workshop stood at 89, the actual cadre had been 48. Forty one posts including Mechanical Engineer had been vacant. Duty lists had not been provided to 28 of the cadre.	As approval of the Treasury is sought by now for filling of vacancies existing in the cadre that should be attached to the Ratmalana main stores and the mechanical workshop, it is expected to make prompt recruitments accordingly. Moreover, instructions necessary for issuing duty lists as well have been given.	Action should be taken to make recruitments for the vacancies while providing with duty lists as well.

(b) The number of vacancies of the cadre as at 31 December 2018 stood at 119. Attention had not been paid to recruit necessary staff.	It has been referred for the approval of the Department of Management Services to fill 106 vacancies out of the vacancies existing at present in the Board.	Action should be taken to fill vacancies.
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4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation -----	Comments of the Management -----	Recommendation -----
Even though the financial statements of the year 2018 should be presented before 28 February 2019, action had not been taken accordingly.	Financial statements of the year 2018 have been handed over to the National Audit Office on 23.04.2019.	Action should be taken to submit financial statements to Audit on the due date in terms of provisions in circulars.

4.2 Budgetary Control

Audit Observation -----	Comments of the Management -----	Recommendation -----
Variances ranging from 5 per cent to 100 per cent and from 5 per cent to 175 per cent were observed respectively between budgeted and actual income and budgeted and actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of control.	Attention will be paid in future to minimize the variances occurring between budgeted and actual income and expenditure as much as possible.	Action should be taken to prepare the budget realistically and to make use of it as an effective instrument of management control.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Water Resources Board, considering the 2030 Agenda of the United Nations on Sustainable Development had identified one of the sustainable development goals, which is obtaining water and sanitation facilities to all and ensuring its sustainable management, which should be achieved according to its scope and other goals coming under its scope. However, action had not been taken to identify the targets and based data relating thereto, the focal points to achieve the target as well as indices for measuring the progress and annual focal points required for regulation of the said functions as well had not been identified.</p>	<p>According to the Agenda on Sustainable Development, the goals achieved by the Water Resources Board were mainly based on island wide development of ground water resources, conservation and ensuring of management. Moreover, the Board's experience of preceding years and target based data and intermediate targets relevant to measuring progress as well as Key Progress Indices (KPI) are included in the Annual Action Plans of the Board and relevant projects are implemented accordingly. Action is being taken for further regularization of these activities as pointed out by Audit. Future action will be taken to achieve physical and human resources essential therefor.</p>	<p>Action should be taken to identify sustainable development goals and targets and data relating thereto and to identify indices in measuring the phenomena where targets should reach.</p>
<p>(b) The Ministry of Environment, the National Water Supply and Drainage Board, the Geological Survey and Mines Bureau, the Ministry of Disaster Management and the Department of</p>	<p>The Board continuously works on its role with the Ministry of Environment, the National Water Supply and Drainage Board, the Geological Survey and Mines Bureau, the Ministry of Disaster Management and the Department of Irrigation and</p>	<p>Action should be taken to strengthen preparatory access for sustainable development.</p>

Irrigation had been in planning the role of the identified as parties Board, arrangements are interested on the role of being made in compliance the Water Resources with criteria prescribed Board relating to specially by the Ministry of implementation of Irrigation, Water Resources sustainable and Disaster Management. development goals. Moreover, in terms of the However, in the setting Water Resources Board Act, of targets relating to the action has been taken since the Board, it was further the year 2017 to hold observed that there is inter-departmental no reflection of a consultancy meetings participatory access. proposed for coordination of required Government institutions.

- (c) It is essential that an accurate data base exists for measuring the correct performance of a certain function. However, it was observed that the Board had not taken action to create an accurate data base for measuring the achievement of sustainable development goals. It was further observed that matters such as lack of financial provisions, physical facilities and trained employees had resulted therefor.
- Necessary infrastructure facilities will be improved by paying a great deal of attention to matters pointed out by Audit. Action will be taken to prepare long term plans in this connection.
- Collecting and analyzing of data relating to achievement of sustainable development should be carried out.