

National Water Supply and Drainage Board – 2018

1.1 Qualified Opinion

The audit of the financial statements of the National Water Supply and Drainage Board (“Board”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, 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 report 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 accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Accounting Standards, and for such internal control as management determine 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 financial reporting process.

As per 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 Audit Scope

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 skepticism 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 auditor's 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 auditor's 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 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 Internal Control over the preparation of financial statements.

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| i. Failure to reconcile work-in-progress balances with balances in project financial statements. | There is no practice to reconcile WIP. | Work-in-progress balances in general ledger should be reconciled with project's financial statements. |
| ii. Failure to prepare monthly bank reconciliations prior to 15th day of following month. | In the Bank accounts which involve direct payments by the Bank takes a longer period as the Bank advices are to be requested and received by the Banks. | All Bank reconciliations should be prepared as per Financial Regulation 395(c). |
| iii. Failure to investigate and clear large amount of debit and credit balances transferred to suspense account during preceding years. | The Addl. GM(F) has appointed a special committee to investigate and clear the above accounts and the progress is still going on. | Actions should be taken to clear the suspense account. |
| iv. Failure to settle advances, even though lands had been already acquired. | The advance is settled only at the time where the deed is being transferred. | Actions should be taken to clear the land advance account pertaining to lands already acquired. |
| v. Board of survey for the year 2018 had not been completed even by 30 th June 2019 | Noted. | Annual board of survey should be completed as per financial Regulation 756. |
| vi. Not reviewing and restating | Due to an immense asset base | Value of fixed and |

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| | the value of fixed and intangible assets | scattered around the country revaluation of assets every year could not performed. | intangible assets should be reviewed periodically and re-state accordingly. |
| vii. | Non-revaluation the fixed assets of the projects even though the projects had been completed. | The projects could not be considered as completed until the completion certificates are issued by the responsible engineer of NWSDB. | Actions should be taken to capitalized assets of completed projects. |
| viii. | Failure to investigate the work in progress balances remained unchanged for a long period of time. | Action has been taken. | Actions should be taken to capitalized work – in - progress of completed projects. |
| ix. | Releasing the vehicles of the board to other institutions. | Noted. | Should adhere to the Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. |
| x. | Long outstanding stocks-in-transits balances. | Each year there will be balance in the stock in transit. But at the verification it is cleared. | Actions should be taken to clear the long outstanding stock in transits. |
| xi. | Failure to maintain integrated stock control system. | The development of the Integrated stock control system is currently being undertaken by the IT Division of the NWSDB. | Actions should be taken to implement integrated stock control system. |
| xii. | Advance received for the rechargeable schemes are remained for long a period without being set off against relevant expenditure incurred. | There are few instances where they are being delayed. They are i. The Rechargeable projects executed by the regional office should send the completion certificate to fully settle the advances to the Head Office ii. There are few large projects such as Uma Oya Rechargeable project where durations are being extended for various reasons. | Actions should be taken to settle long outstanding rechargeable balances in the general ledger. |

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

| Non Compliance with the reference to particular Standard | Management Comment | Recommendation |
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| <p>i. Contrary to Section 32 of the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 01), a balance of a short-term deposit kept at Road Development Authority relating to Greater Rathnapura Water Supply Project which included under the current assets amounting to Rs.8,254,685 had been transferred to security deposit liability account.</p> <p>And also, depreciation and deferred income amounting to Rs.1,041,284 in respect of Computer Software received as grants had been set off each other without shown them separately in the financial statements of the year under review.</p> | <p>i. This has been corrected in through the Journal Entry number 381.</p> <p>ii. The assets of the Board are categorized into two</p> <ol style="list-style-type: none"> 1. Operation & Maintenance (O&M) funded assets 2. Grant funded assets <p>The policy of the depreciation of the Grant funded assets is to set off the related depreciation from the Grant component. The depreciation related to O&M funded assets is to charge it to the Profit and Loss account.</p> <p>As per the para 12 of LKAS 20 Grants shall be accounted in a systematic basis over the period. Please refer para 12 to 19 of the above standard.</p> <p>Also as per the para 45 of LKAS 01 an entity shall retain the presentation and classification of items in the Financial Statements from one period to another in a consistent manner.</p> | <p>Should adhere to the provisions in the Sri Lanka Accounting Standard 32. (LKAS 32)</p> |
| <p>ii. Contrary to the Section 07 of the Sri Lanka Accounting Standard on Statement of Cash flows (LKAS 07), a deposit made in a saving account amounting to Rs.1,311,367 had been categorized under non-current assets.</p> | <p>As per the LKAS 1 para 66 it provides four conditions to classify an asset as current asset.</p> <p>With regard to the Saving Account at the Bank of Ceylon, the Management does not have any intension to</p> <ol style="list-style-type: none"> 1. Sell or consume it in its normal operating cycle 2. Does hold it for the purpose of trading 3. To realize it within twelve months | <p>Should adhere to the provisions in the Sri Lanka Accounting standards 07-(LKAS 07) when categorizing assets as Current and Non – Current.</p> |

4. Utilize to settle liability within twelve months.

(there is on intention to the management.)

Therefore para 06 of LKAS 7 is not applicable to this Saving Account. Hence it is categorized as non-current asset.

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| iii | As per Section 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful lives of the assets had not been reviewed after the year 2010. Hence fully depreciated assets costing Rs.1,668,151,682 related to 13 categories of fixed assets are continuously being used by the Board without reassessing the useful economic life time of such assets. | It is difficult to get the services of a suitable valuation officer to do it. Hence if a suitable valuation officer is not deployed it may mislead the Financial Statements. | Should adhere to the provisions in the Sri Lanka Accounting Standards 16. (LKAS 16) |
| iv. | Contrary to the provisions in the Sri Lanka Accounting Standard on Accounting for Government Grants and Disclosure of Government Assistance (LKAS 20), foreign grant balances aggregating to Rs.13,580.74 million relating to 31 Projects which remained unchanged over a period of 8 to 12 years had been brought to the accounts as at 31 December 2018 without being amortized. The impact on non-amortization to the financial statements could not be ascertained in audit as there were no details available relevant to those foreign grants. | A policy decision was taken by the General Treasury to convert the outstanding loans of the foreign funded projects. Accordingly they were converted to equity during the year 2015. Hence the relevant grant components of the relevant foreign loans also have to be converted to equity to comply with the accounting principles of Matching concept and Consistency concept. | Should adhere to the provisions in the Sri Lanka Accounting Standards LKAS 20. |
| v. | Contrary to the provisions in the Sri Lanka Accounting Standard on Investment Property (LKAS 40), the Carrying value of Investment Property amounting to Rs.342,542,802 had been shown as Property Plant & Equipment, instead of been shown as | As per the para 14 of LKAS 40, the Building constructed by the Board at Sunil Mawatha, Battaramulla currently occupied by the Ministry of City Planning, Water Supply and Higher Education is judgmental to recognized as Investment | Should adhere to the provisions in the Sri Lanka Accounting Standards (LKAS 40) regarding presentation of Investment Property. |

Investment Property as at 31st December 2018. Further as per the Section 75 (f) (i) and 79 of the standard, income from Investment Property had not been disclosed and the Board had not made proper disclosures with regard to methods of depreciation, useful lives or rates of depreciation, the gross carrying amount and the accumulated depreciation at the beginning and end of the period and amount of impairment.

Property. Hence as per the para 75 (C) of the above standard such adjustment in the Financial Statement is not required.

- vi. In terms of the Section 81 (e) of the Sri Lanka Accounting Standard on Income taxes (LKAS 12), relevant disclosure requirements such as the amount of deductible temporary differences, unused tax losses, and unused tax credits in the event of no deferred tax asset is recognized in the statement of financial position had not been made.

NWSDB might not have to pay income taxes for the foreseeable future. Therefore is no necessity to make any provisions for Deferred taxation in the Financial Statements. Should adhere to the provisions in the Sri Lanka Accounting Standard – 12. (LKAS – 12)

As per the Para. 10 of LKAS 37 an obligation could be recognized in the Financial Statements only if

1. There is a probability of cash outflow and
2. Reliably measurement of the liability.

Since the above conditions are not being met to recognize the differed tax, it is not necessary to make the provisions in the Financial Statements.

- vii The board had failed to review the period of amortization and method of amortization for intangible assets at least each financial year as specified in section 104 Sri Lanka Accounting Standard on Intangible Assets (LKAS 38)

The Global Practice for amortizing the computer software is 7 years and accordingly the intangible assets are being amortized over a period of 7 years. The total intangible assets comprise 0.0013% of the Total Asset. Therefore it is not necessary to review it in each and every year. Should adhere to the provisions in the Sri Lanka Accounting Standards 38. (LKAS 38)

Further as per the para 74 of LKAS 38 NWSDB is applying the Cost model to account the intangible assets. Hence reviewing period of the amortization is not required.

1.5.3 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
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| i. A stolen stocks in Kelaniya region three (3) years ago amounting to Rs.2,549,787 had been included in the inventory as at 31 December 2018. | This stock balance was remained due to an ongoing inquiry. The OIC in the stores had now retired. When the inquiry has been finalized an action will be taken to write off from the books of accounts. | Action need to be taken to amend the books of accounts and take immediate actions to recover the losses from responsible officers. |
| ii. Economic Service Charges (ESC) paid during the year 2016 amounting to Rs.63,287,387 had been erroneously identified as income tax expense in the statement of comprehensive income and as tax paid in the statement of cash flows of the year under review. However, the actual tax payment for the year under review was Rs.133,867,477. Further, detailed income tax computation had not been done in order to recognize actual income tax expense for the year under review. | During the last two years, there had been no income tax payable by the NWSDB. The ESC charges could be set off against the income tax liability up to a maximum of two years. Hence the ESC charge paid during the year 2016 has been charged as expenditure in the year 2018. This has been clearly indicated under the line item of Taxation of the Statement of Comprehensive Income. The ESC charges could be set off against the income tax liability up to a maximum of two years. During the last two years, there had been no income tax payable by the NWSDB, to charge it | Ensure the accuracy of Income Tax Expenses in the Statement Of Comprehensive Income and actual tax paid in the Statement Of Cash Flows. |

against the ESC. Therefore the ESC paid during the year 2016 had been charged as expenditure in the 2018.

Accordingly the ESC paid for the year 2018 is recorded as ESC receivable in the year 2018.

Further the ESC paid was recorded in the Cash Flow Statement as cash outflow in the working capital adjustment. Therefore the cash outflow equivalent to the ESC paid is correctly adjusted under operating cash flow activities.

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| <p>iii. As per the information furnished to audit, it was observed that the lands situated at Hambanthota region related to Kirama Katuwana Water Supply Project had been legally acquired by the Board. However, the advance paid amounting to Rs.6,626,000 on such land had not been capitalized even up to 31 March 2019.</p> | <p>Advance payment is settled only at the time of the full ownership is being transferred to the NWSDB.</p> | <p>Actions need to be taken to clear the advances when acquisition procedure had been completed.</p> |
| <p>iv. As per the financial statements of the year under review, trade debtors as at 31 December 2018 was Rs.4,779,721,487. However, provision for impairment had been made only for debtors amounting to Rs.4,754,467,100 and no provision had been made for the debtors aggregating to Rs.25,254,387.</p> | <p>According to LKAS 36, the impairment for all the trade debtors is calculated from the information provided by the Commercial Division. Further general provision for other debtors and sewerage debtors are also calculated by using the information in the General Ledger.</p> | <p>Ensure accuracy of Provision of impairment for debtors.</p> |
| <p>v. As per physical verification reports of Akkereipattu Regional Office, the fixed assets costing Rs.59,100,869 were not in usable condition and a Chlorinator house costing Rs.2,000,000 and Naturalization Pond of Rs.115,000 had already been abandoned. However, without taking</p> | <p>Even though the assets are not being used they have to be confirmed that those assets are to be discarded by a committee appointed by the DGM and approved</p> | <p>Actions need to be taken to dispose unusable assets and amend the books of accounts accordingly.</p> |

necessary actions to dispose such assets, a depreciation provision of Rs.1,299,871 had been made during the year under review.

by the GM. As per the accounting standard LKAS 16 these assets are to be depreciated until they are being discarded.

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| vi. | As per the physical verification report of Ampara Regional Office, the assets with an aggregate value of Rs.69,659,250 were not available physically. However, a depreciation provision of Rs.1,963,612 had been made during the year under review. Further, structures valued at Rs.7,088,478 had been demolished and another structures costing Rs.1,300,000 had been duplicated. Hence an excess provision of Rs. 335,478 had been made as depreciation on such assets, and as a result, profit had been understated by similar amount. | With regard to the structures valuing to Rs.7,088,478 demolished, a Board Paper is in process to obtain the approval from the Board of Directors to eliminate from the Books of Accounts. | Actions need to be taken to update the asset base in the General Ledger. |
| vii. | As per the information received, the cost of fifty-six (56) completed and commissioned Water Supply and Rehabilitation Projects amounting to Rs.3,672,877,899 had remained in the work-in-progress as at 31 December 2018 without being capitalized. | At different stages valuation and approval to completion has to be obtained and these are found to be in these stages. Action will be taken to clear. | Actions need to be taken to capitalize the completed and commissioned water supply and rehabilitation projects. |
| viii. | It was observed that the Board had been made prior year adjustments in the financial statements of the year 2017 and 2018 pertaining to years 2015, 2016, and 2017. As a result, the retained loss as at the end of year 2017 is distorted by Rs.429.91 million. Hence, the possibility for making adjustments to the profit for the year under review in the forthcoming year had not been ruled out in audit. The details of such prior year adjustments made in the previous years are given below. | As per the LKAS 8 it is a regulatory requirement to correct the prior period errors. Accordingly the Board has complied with the said requirement. | Actions need to be taken to avoid distorting profits by making prior year adjustment as a practice. |

| Year | Amount Debited | Amount Credited | Net effect to the accumulated Profit |
|------|----------------|-----------------|--------------------------------------|
| | Rs. | Rs. | Rs. |
| 2017 | 5,298,986 | 4,588,000 | 710,986 |
| 2016 | 243,896,877 | 139,680,704 | 104,216,173 |
| 2015 | 370,743,389 | 45,758,713 | 324,984,676 |

- ix. In respect of twenty three (23) Projects, the balances aggregating to Rs.166,114,851 shown under the work-in-progress are remained unchanged over a period ranging three to ten years without being investigated in order to make necessary adjustments in the financial statements.
- At different stages valuation and approval to completion has to be obtained and these are found to be in these stages.
- Action will be taken to clear.
- Actions need to be taken to capitalize the completed and commissioned water supply and rehabilitation projects.
- x. As compared the confirmations received from banks with the loans and accrued interest on loans shown in the financial statements in respect of Kelani Right Water Supply Project and Greater Matale Water Supply Project, an over provision of Rs.6,974,239 had been made with regard to interest. As a result, the profit had been understated and current liabilities had been overstated by similar amount at the year under review. Further, in respect of Katana Water Supply Project, the outstanding loan balance designated in US\$ as at the end of year under review it was Rs.1,914,460,917. However, as per the bank confirmation it was Rs.1,793,311,046. As a result, the foreign loan balance in the financial statements had been overstated by Rs.121,149,871.
- Kelani Right Water Supply Project**
- The Bank has confirmed the loan amount along with the accrued interest of the respective loan as at 31.12.2018. But the amount indicated in the Value as per Loan Schedule indicates loan amount excluding the accrued interest.
- The accrued interest amount of Rs.297,340,764 has been accounted in the Financial Statements under loan interest payable.
- Greater Matale Water Supply Project**
- The Bank has confirmed the loan amount along with the capital payable outstanding and accrued interest of the respective loan as at 31.12.2018. But

the amount indicated in the Value as per Loan Schedule indicates loan amount excluding the capital payable and accrued interest.

The capital payable amount of Rs.147,032,945 has been accounted in the Financial Statements under loan capital payable in note number 29.

The accrued interest amount of Rs.257,457,708 has been accounted in the Financial Statements under loan interest payable.

Katana Water Supply Project

There will be a difference between the exchange rate taken by the NWSDB and the Bank. Therefore this difference is due to the change rate differences.

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| xi. | Although twenty seven (27) vehicles had been disposed during the year under review, only cost and accumulated depreciation of nineteen (19) vehicles had been taken into account in calculating profit/(loss) on those disposed assets. Due to non-consideration of cost and accumulated depreciation of other vehicles, the impact to the financial statements could not be ascertained in audit as there were no details available relevant to them. | The disposed assets which are recorded in the General Ledger have been correctly accounted in the disposal profit. The gains of the assets which are not recorded in the General Ledger have been recorded and recognized in the other income. | Ensure that the profit on disposal fixed assets has been calculated accurately. |
| xii. | A stock balance of Rs.1,096,062 remained at the Kegalle Regional Laboratory had not been identified as stocks in the financial statements prepared for the year under review. | The cost of items issued for Laborites are charged to the Profit and Loss account when they are issued. That is in the | Ensure that all stock items are included under the inventory in the Financial Statements. |

NWSDB accounting procedure the closing and opening stock is not considered as a part of Cost of Sale. Therefore over or understatement of stocks can not affect the profit or loss.

1.5.4 Unreconciled Control Accounts or Records

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>i. Accuracy and completeness of four (04) items of fixed assets such as Land Free hold, Furniture and fittings, Building free hold and partitions could not be ascertained in audit due to an aggregate difference of Rs.18,170,606 existed in value of Property Plant and Equipment between fixed asset registers of Uva, Batticaloa, Western Central and Southern Region and the corresponding schedule furnished to audit. Details are as follows.</p> | <p>Batticaloa The General Audit has omitted the Fixed Assets acquired under the rechargeable funds.</p> | <p>Should reconcile the fixed asset registers with the corresponding schedules.</p> |

| Region | Type of Asset | Value as per detailed schedule Rs. | Value as per Fixed Asset Register Rs. | Difference Rs. |
|-----------------|----------------------|---------------------------------------|--|--------------------------|
| Uva | Land | 300,000 | - | 300,000 |
| | furniture & Fittings | 1,861,963 | 10,996,938 | 9,134,975 |
| Batticaloa | Buildings | 117,786,350 | 112,889,559 | 4,896,791 |
| Western Central | - | 810,074,733 | 808,974,733 | 1,100,000 |
| Southern | Partition | 2,738,840 | - | <u>2,738,840</u> |
| Total | | | | <u>18,170,606</u> |

| | | |
|---|--|--|
| <p>ii. Following differences were observed.</p> <p>(a) Trade Debtors</p> <p>As per financial Statements 4,779,721,487</p> <p>As per Age analysis <u>4,607,334,432</u></p> <p>Difference <u>172,387,055</u></p> <p>(b) New Connection Debtors</p> <p>As per financial Statements 187,303,893</p> <p>As per Age analysis <u>65,755,070</u></p> <p>Difference <u>121,548,823</u></p> | <p>(a) (b) & (e) Commercial System and the General Ledger System are configured to achieve two different objectives. Hence there is a difference between these two</p> | <p>Should Reconcile the balances in Financial Statements with the corresponding schedules.</p> |
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(c) Receipt on Disposal of Fixed Assets

| | |
|-----------------------------|-------------------------|
| As per Financial Statements | 12,695,977 |
| As per detailed schedule | <u>15,961,886</u> |
| Difference | <u><u>3,265,909</u></u> |

(d) Profit on Disposal of Fixed Assets

| | |
|-----------------------------|-------------------------|
| As per Financial Statements | 24,193,893 |
| As per detailed schedule | <u>20,927,984</u> |
| Difference | <u><u>3,265,909</u></u> |

(e) Metered Sales & Bulk Sales

| | |
|-----------------------------|-------------------------|
| As Per Financial Statements | 22,382,424,723 |
| As Per MIS Reports | <u>22,385,300,000</u> |
| Difference | <u><u>2,875,277</u></u> |

(f) Special Project Advances (GCWWWMIP -1)

| | |
|-----------------------------|---------------------------|
| As Per Financial Statements | 1,786,957,815 |
| As per detailed schedule | <u>1,947,606,836</u> |
| Difference | <u><u>160,649,021</u></u> |

(g) Special Project Advances (GCWWWMIP -2)

| | |
|-----------------------------|-------------------------|
| As Per Financial Statements | 2,521,617,447 |
| As per detailed schedule | <u>2,517,208,883</u> |
| Difference | <u><u>4,408,564</u></u> |

systems.

(c) & (d) The sales proceeds of the assets which disposed during the year which are recognized in the General Ledger have been included into the Cash Flow Statement.

(f) & (g) The schedule for this had already been submitted along with the Financial Statements.

- iii. As per the physical verification reports of the Warehouses in Waskaduwa, Wellawatta and North West Region, the inventory balance as at 31 December 2018 was Rs.261,487,780. However, as per the financial statements it was Rs. 248,875,937. As a result, the inventory balance as at the end of year under review had been understated by Rs.12,611,843.

Details are as follows.

| Region | Balance as per Physical Verification reports | Amount taken as Stocks | Difference |
|-----------------------------------|--|---------------------------|----------------------------|
| | Rs. | Rs. | Rs. |
| Waskaduwa Construction ware house | 135,414,831 | 156,306,319 | 20,891,488 |
| Wellawatta ware house | 13,611,539 | 10,605,949 | (3,005,590) |
| North West | <u>112,461,410</u> | <u>81,963,669</u> | <u>(30,497,741)</u> |
| Total | <u>261,487,780</u> | <u>248,875,937</u> | <u>(12,611,843)</u> |

The closing and opening stock is not considered as a part of Cost of Sale of NWSDB. Therefore over or understatement of stocks can not affect the profit or loss. Should reconcile the under mentioned differences.

- iv. As per the audit test check carried out, an aggregate absolute difference of Rs. 49,770,754 observed between the work- in- progress balance shown in the financial statements of the Board and the corresponding balances shown in the individual financial statements of six Foreign Funded Projects

Deduru Ova WSP/
Monaragala
Buttala WSP/
Aluthgama,
Mathugama &
Agalawatta WSP/
Replacing of
Transmission &
Distribution
Mains from
Orugodawatta to
Kaduwela

Should reconcile the under mentioned differences.

The Board Financial Statements records the mobilization advance in the “Deposit and Advances” in the note number 21 and the balance in the WIP. But in the Project Financial Statement the WIP and mobilization advances are recorded together. Therefore this difference relates to the Mobilization advances.

Kelaniya Right
Bank WSP 11

The difference includes the mobilization advance and WIP being recorded together in the Project Financial Statements. Whereas

mobilization
advance and WIP
being recorded
separately in the
Board Financial
Statements. Also it
is noted that
Rs.21,394,970 of
work done on
KRB11 being
recorded in the
Polgahawela
Pothuhera WSP.

Anamaduwa

Intergreated WSP

The difference
includes the
mobilization
advance and WIP
being recorded
together in the
Project Financial
Statements.

Whereas

mobilization
advance and WIP
being recorded
separately in the
Board Financial
Statements. Also
the Land fee
payments are
included in the
Project Financial
Statements. But the
in Board Financial
Statements, the
Land fee payment
has been recorded
separately in the
Land Ledger Code
account.

**Greater Dambulla
WSP/Polgahawel,**

Pothuhera

Alawwa

Intergreated WSP

The reconciliations for the difference in the above projects are attached.

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|---|---|---|
| v. An unidentified debit balances and credit balances amounting Rs.8,173,807 and Rs.43,415,740 respectively shown in the bank reconciliations in respect of three (03) banks accounts had not been cleared. | The NWSDB could not obtain the relevant Bank advises from the BOC Bank. Discussions are being carried out to obtain these advises from the Bank. These will be cleared when these advises are being received by the Bank. | Unidentified debit and credit balance should be reconciled. |
|---|---|---|

1.5.5 Unauthorized Transactions

| Description of unauthorized transaction | Management Comment | Recommendation |
|--|-----------------------------|--|
| Out of the performance bond acquired from the contractor of Rathmalana, Moratuwa, Ja – Ela, Ekala Waste Water Management Project, valued at Rs.1,607.53 million had been encashed during the year under review. However out of that Rs.1,240.4 million had been utilized for debt service payments to local banks without getting treasury approval. | No comments had been given. | Ensure that project funds had not been utilized for extraneous activities without obtaining required approvals |

1.5.6 Suspense Accounts

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| Net value of the Assets, Liabilities and Equity balances of the board amounting to Rs.793,388,346 had been transferred to suspense account during the year 2016, 2017 and 2018 without taking any actions to investigate such balances and the Suspense Account balance as at end of the year under review was Rs.12,780. | These balances are rolling over from the year 1999 and it was due to the errors occurred from converting to computerized system from the manual system. Various actions were taken to clear it. Such as special committees were appointed and special services were obtained from Audit Firms. As a result some have been written off by obtaining the | Actions should be taken to clear the Suspense Account. |

However, actions had not been taken to clear such balances even up to the end of April 2019.

approval from the Board through a Board Paper. Further a decision was taken to transfer it to a separate account to take action to clear it.

The Addl. GM(F) has appointed a special committee to investigate and clear the above accounts and the progress is still going on.

1.5.7 Going Concern of the Organization

| Audit Issue | Management Comment | Recommendation |
|--|--|--|
| ----- | ----- | ----- |
| <p>Total outstanding loan balances of the Board had been increased from Rs. 67.16 billion to Rs. 100.26 billion or by 49 per cent as compared with the previous year loan balances mainly due to increase in foreign loan exposure during the year under review. Hence, the debt to equity (gearing) ratio had been increased from 24 per cent in 2017 to 32 per cent in 2018.</p> | <p>The Tariff Revision which is due from the year 2012 was not effective to date. A proposal has been submitted by the NWSDB to the General Treasury to increase the Tariff. Currently the NWSDB cannot match its income to the increase in the cost which is caused by the inflation of 4% per year.</p> <p>Even though the Tariff rate has not been revised for the last 6 years, the quantity of water sold has</p> | <p>Actions should be taken to introduce a proper revenue enhancement and cost reduction mechanism with immediate effect.</p> |
| <p>Further, the Board had committed for another Rs. 253 billion local and foreign loans as at 31 December 2018. Accordingly, the Board is required to pay an average of Rs.19 billion annually as capital and interest on local and foreign loans over the next 5 years. Since the Board is not having a proper revenue enhancement or cost reduction program for future periods, the future debt servicing may cause a severe cash flow issues to the Board which intern would affects the operational activities and going concern of the Board.</p> | <p>increased along with an increase in the customer base by more than one hundred thousand per year.</p> <p>Further the Board has entered into the loan commitment based on the guarantee given by the General Treasury and this situation has been informed at several occasions to the General Treasury and to the line Ministry.</p> <p>As a solution to the overcome this situation the General Treasury has provided several compensation facilities to NWSDB such as</p> <ol style="list-style-type: none"> 1. Treasury Guarantee for each loan | |

2. The General Treasury has agreed to bear 50% of the repayment of the loans taken for urban projects and to bear 75% of the repayment of the loans taken for rural projects and 100% repayment of the loans taken for sewerage projects.
3. Granting of Treasury Bond of Rs.13Billion in the year 2015 to meet the expenses of the projects and Rs.6 billion being agreed to provide in the year 2019 to meet the repayment and interest of the loan.

Accordingly the above indicates that the Government provides financial assistance to the NWSDB to meet the loan commitments.

The salary increase in every three years is taken into consideration of the increase in the revenue. Each year the revenue increase indicates an average of 7% and accordingly the increase for three years indicates an average of 21%. Hence the salary increase is considered to match the increase of the revenue. Therefore the salary increase does not affect the going concern of the NWSDB.

1.5.8 Documentary Evidences not made available for Audit

| Item | Amount | Evidence not available | Management Comment | Recommendation |
|----------------------------|-------------|-------------------------------------|---|--|
| | Rs. | | | |
| (a) New Connection Debtors | 184,612,724 | Detailed Schedules and Age Analysis | (a) All New connection debtors (273) has been submitted to the General Audit along with the Financial Statements. | (i) Actions should be taken to maintained detailed schedules of each debtors and creditors in a data base. |
| (b) Special | 13,309,832 | Detailed | | (ii) After a detail tax computation expense |

| | | | |
|-------------------------------------|-----------------|--|--|
| Bonus | | Schedules | (b) The special for the year should be |
| (c) Other Debtors | 24,443,502 | Detailed Schedules | advance of Rs. 10,529,933 given in the year 1999 is to be recovered at the time of the retirement of the employees. This has been decided by the Board of Directors at that time. Hence this could only be cleared when those employees are being fully retired. |
| (d) Non-moving & Slow-moving Stocks | 1,127,874,983 | Age Analysis | (iii) Bank confirmations should be taken prior to submitting financial statements to the audit |
| (e) Working Progress | 247,666,512,803 | Project wise Detailed Schedules of Regional Support Centers | (iv) All the schedules to be submitted to the audit with financial statements. |
| (f) Property, Plant & Equipment | 86,631,779,732 | Fixed Asset Registers and Verification Reports | (c) All Other debtors schedule has been submitted to the General Audit along with the Financial Statements. |
| (g) Trade Creditors | 110,803,940 | Detailed Schedules | (d) The non-moving and slow moving stock details are provided to the General Audit along with the stock verification reports. |
| (h) Other Creditors | 89,949,095 | Detailed Schedules | Since there is an immense stock base, the NWSDB could not prepare an age analysis. |
| (i) Tax expense | 63,287,387 | Income Tax Computation | (e) The Working progress details and schedules as per Regional Support Center wise have been submitted to the General Audit. |
| (j) Investments – Held to Maturity | 208,742 | Fixed Deposit Certificates, Bank Confirmations | (f) Fixed asset verification reports which are completed have been submitted |
| (k) Local Source Loan | 6,724,006 | Detailed Schedules, Confirmation from Local Loans Development Fund | |

(g) and the non-submitted reports are still in progress.

(h) The Schedules for Trade Creditors were already submitted to the General Audit along with the Financial Statements.

(i) The Schedules for Other Creditors were already submitted to the General Audit along with the Financial Statements.

(j) The computation of Tax for the year 2018/2019 is to be produced to IRD on 30 November 2019.

(k) The Local Bank and Foreign Bank confirmation request have sent to the respective Banks.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| i. Trade debtors, sewerage debtors and other debtors aggregating to Rs.1,153 million had remained over two years without being recovered. Out of that 63 per cent represents debtors in Colombo, Kelaniya, | The policy of the Board is to provide full provision for Debtors who are over and above more than two years. But the recovery process is continued to recover it. Such as sending red notices, disconnection of water and implementation of legal action. The Board is lenient on taking action with regard to | Sufficient and necessary actions should be taken to recover due amount from the debtors |

Kotte and Dehiwala regions. the debtors as the Board is providing an essential service to the general public.

- ii. Direct confirmation had been called in respect of randomly selected trade debtors amounting to Rs.178,131,134. The debtors amounting to Rs.1,613,601 are agreed with the confirmations and debtors amounting to Rs.1,173,787 are not agreed with the confirmations. Confirmation had not been received in respect of debtors amounting to Rs.175,343,746 up to 30 April 2019.
- The confirmation requested from the consumers who are trade debtors do not respond to the confirmation request.
- Actions should be taken to review the accuracy of existence customer data base.

- iii. An amount equivalent to Rs.6,872,181 had been shown under sewerage debtors to be recovered from Sri Jayewardenapura Hospital. However, it was observed that Rs.5,263,268 had been already settled, and hence only an amount of Rs.1,608,913 to be recovered.
- According to the data available at Manager (Jayawadanagama) office monthly bills of the 2018 has been paid as per the above schedule. Based on this, it is observed that all the bills relevant to 2018 has been paid by 2019.02.14.
- Ensure that transactions had been made correctly to the general ledger.

| Month | Monthly Bill Rs. | Paid Date |
|-----------|------------------|--------------|
| January | 1,141,070.56 | March, 26 |
| February | 895,185.36 | May, 04 |
| March | 880,832.47 | May, 17 |
| April | 886,465.90 | June, 29 |
| May | 825,133.80 | July, 29 |
| June | 847,491.10 | August, 27 |
| July | 948,973.88 | October, 02 |
| August | 693,960.66 | October, 19 |
| September | 728,805.05 | November, 02 |
| October | 1,014,207.98 | November, 28 |
| November | 595,622.61 | January, 01 |
| December | 580,331.23 | February, 14 |

- | | | |
|---|---|--|
| <p>iv. Outstanding disconnected debtors as at 31 December 2018 was Rs.1,292,910,373. Out of that debtors amounting to Rs.986,940,330 which equivalent to 76 per cent had remained outstanding over two years without being recovered.</p> | <p>The recovery process takes a substantial time. Such as red notices being sent after 30days and legal action being taken after 90day. Further the legal action to recover takes substantial period of time such as a large number of consumers and it has to be handled by the Attorney General Department.</p> | <p>Actions should be taken to expedite the recovery process.</p> |
| <p>v. Short term deposits amounting Rs.1,000,000 kept and provincial Road Development Authority by Regional Support Center Western North in the year 2014, had not been recovered even by 31 December 2018 even though the projects had been completed three years ago.</p> | <p>Short term deposits amounting to Rs.1,000,000 was already received on 05.03.2019 through the receipt number 120RCA2019/12.</p> | <p>Actions should be taken to expedite the recovery process immediately after the project completion.</p> |
| <p>vi. Short term deposits amounting to Rs.7,393,610 kept at other institutions including Road Development Authority, Colombo Municipal Council, Beruwala Municipal council, Provincial Road Development Authority and Municipal Treasurer had remained outstanding over three years without being recovered.</p> | <p>Several actions were taken to get their refund but due to absence of necessary documents they could not be recovered. Further action will be taken in the near future.</p> | <p>Actions should be taken to expedite the recovery process immediately after the project completion.</p> |
| <p>vii. Contractor's retention and refundable tender deposits amounting to Rs.486,914,669 and Rs.6,953,762 respectively had remained unchanged over three years. Further, no evidences were made</p> | <p>After three years, the Contractor's Retention and Refundable Tender Deposits of the projects completed are normally transferred to Profit and Loss account.</p> | <p>Actions should be taken to investigate the unchanged balances of Contractor's Retention and Refundable Tender Deposits.</p> |

available for audit to verify whether the contracts related to those retentions and deposits had been completed.

1.6.2 Payables

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|---|--|
| i. Other creditors amounting to Rs.35,519,035 had remained outstanding over 03 years without being settled. Further, since the Board had not maintained a proper data base of other creditors their value could not be verified in audit. | There is an issue in the clarifications and a proper policy has to be taken in this regard. | Actions should be taken to expedite the introduction of above mentioned policy to overcome the clarification errors. |
| ii. Unsettled creditors amounting to Rs.177,141,105 had remained over two years in 13 regions without been settled even as at 31 December 2018. | The information given in this para is not sufficient to identify the respective unsettled balances. | Actions should be taken to investigate unsettled creditors balance remained over 02 years. |

1.6.3 Advances

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|--|---|
| i. Advances aggregating to Rs.119,138,100 had been paid for the acquisition of lands from year 2009 to 2015. However, no evidence was made available for audit to verify whether the lands had been legally acquired. | The Land acquisition process involve substantial period of time. When an advance deposit is made to acquire the land, the NWSDB has to wait number of years until the clearance is made. Also the relevant legal documents are available at the NWSDB Land Division. | Actions should be taken to clear the long outstanding land advances. |
| ii. Advances aggregating Rs.1,460,424,649 had been paid to contractors as at 31 December 2018 and out of that Rs.682,861,632 had been remained outstanding for more than 3 years. Further, it was observed in relation to advances paid in Central region legal actions had been taken for advances totaling Rs.9,278,336, however it had not been resolved even up to 31 December 2018. | The recovery of the mobilization advance given to the Contractors in the projects is done as per the contract terms, but it depends on the physical and financial progress of the contractor. Physical and financial progresses were reduced due to the delay of GOSL payments. This is the main reason for the delay in recovering the advance. | Ensure that the recovery of contractor's advances paid at the end of contract completion. |

- iii. Advances received for rechargeable works was amounting to Rs.6,302,459,963. Out of that advances amounting to Rs. 472,643,548 received for 89 Projects had remained unchanged over two years. Further, no evidences were made available for audit to verify whether these projects had been completed or not.
- However out of advance received an amount of Rs. 472,643,548 for 89 projects remained unchanged for 2 years.
- By it's, nature rechargeable projects are ongoing & works are completed on piecemeal basis depending on the customer's requirements. As a result bills are submitted for payment once the works are completed on said basis. We cannot consider such project as completed until the completion certificates are issued by the responsible engineer of NWSDB. Hence balances may remain nonmoving for a long time in our records.
- There are settlements done in 2019 out of the balance mentioned above.
- iv. A land purchased by the Board to construct a Wastewater Treatment Plant under Galle Area Wastewater Disposal Project had been valued at Rs.71.5 million by the Department of Valuation and advance amounting to Rs.21.25 million had been given in April 2014 to the land owner without considering the ownership of the land. However, audit observed that the land occupied by some families and the existing owner had removed soil from the land after obtaining the advance.
- Galle Wastewater Disposal Project** Land acquisition will be carried out for this project by land section independently while separate investigation is underway to recover the advance payment by the legal section.
- Action should be taken to investigate the unchanged balance of rechargeable works.
- Action should be taken to expedite the recovery process of advances already paid to land owner.

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

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|--|---|---|--|
| i. General Manager's Circular of Admin/1/ 12/ 2015 of 12 August 2015 | Legal actions had not been taken to recover the outstanding bill value amounting to | Legal actions were taken with the assistance of Attorney Generals | Should adhere to the provisions in the General Manager's |

| | | | | |
|------|---|---|---|--|
| | | Rs.520,687,090 in respect of 2049 disconnected consumers which had remained over 3 to 183 months in 30 regions. | Department. | Circulars. |
| ii. | Treasury Circular of PED/ASD/02/Veh.Circular/2015 of 10 January 2015 | Two bowsers and three motorcycles in Maharagama Manager Office and nine motor vehicles in Regional support Center Western North which were not in running conditions had not been disposed even is at 31 December 2018. | Action has been taken to dispose the following vehicles JV 5994 / 48-5686 / LA 5749 | Should adhere to the provisions in the Treasury Circulars. |
| iii. | Financial Regulation of the Democratic Socialist Republic of Sri Lanka. | | | |
| | a) Financial Regulation 770 | Without taking actions to dispose the obsolete stocks valued at Rs.28,460,008, it had been included in the financial statement of the year 2018. | The obsolete stocks are disposed after obtaining the Board Approval | Should adhere to the provisions in the Financial Regulations. |
| | b) Financial Regulation 756 | Board of Survey for the year 2018 had not been completed even by 30 th April 2019. | No reply was given. | Should adhere to the provisions in the Financial Regulations. |
| iv. | Section 05 of Part (1) of National Water Supply and Drainage Board Law No.2 Of 1974 | No Board Member had been appointed from the Ministry of National Policies and Economic Affairs even up to 30 th April 2019. | No reply was given. | Should adhere to the provisions in the National Water Supply and Drainage Board Law No.2 Of 1974 |
| v. | Management Audit Circular No.1/2017 of 15 February 2017 | No Internal Auditors had been appointed on full time or part time basis for the Development Projects funded by foreign | No reply was given. | Should adhere to the provisions in the Management Audit Circulars. |

financing.

- | | | | | |
|---|---|---|---|--|
| vi. | Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | During the year under review, the Board had paid a sum of Rs.58,583,402 as salaries and allowances of eighty-five (85) employees who had been released to the Line Ministry by 16 October 2018. Accordingly, an amount equivalent to Rs.146,423,663 is to be reimbursed by the Ministry of City Planning and Water Supply for the employees released from the Board from December 2015 to 31 December 2018. | The NWSDB is coming under the Ministry of City Planning & Water Supply. When requests are made by the Sectary of the Ministry to release staff for urgent technical and other functions related to the NWSDB activities due to insufficient staff within the Ministry, the NWSDB staff are temporarily released to the Ministry on the basis of reimbursement of their salaries to the NWSDB. However the Ministry has informed that they do not have the required budgetary provisions to reimburse the said salaries. | Should adhere to the provisions in the Public Enterprises Circulars. |
| vii. Establishment Code of Democratic Socialist Republic of Sri Lanka | | | | |
| (a) | Section 8.1.2 of the paragraph XIV | Rs.967,412 had been paid to 12 employees for deploying own vehicles, for official traveling without getting prior approval. | No reply was given. | Should adhere to the provisions in the Establishment Code. |
| (b) | Section 6.1 of paragraph XIX | 11 quarters had been occupied by employees from 07 to 27 years in Anuradhapura region. | The NWSDB has taken several actions and further actions are still in process. | Should adhere to the provisions in the Establishment Code. |

1.8 Cash Management

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| i. The Cash fraud of Rs.248.44 million committed at Trincomalee, Kelaniya and Ampara Regions during the period of 1999 to 2006 had not been recovered from the persons responsible even up to 31 December 2018. | Legal proceedings are currently being carried out in the Trincomalee High court. Judgment has been already given for the Kelaniya fraud and he has been sentenced for imprisonment. Apart from the above criminal cases, the NWSDB has filed Civil cases in the Mount Levnia District Court to recover the financial losses from the above persons. | Ensure that Internal control procedures are in place to prevent from under mentioned situations in future. |
| ii. A cash fraud of Rs.1,337,135 committed at Kurunegala Region during 2000 to 2001 had not been recovered and no any legal actions had been taken even up to 31 March 2019. | A case has been filed in the Kurunagala High Court against the Cashier. Legal action is being currently undertaken and the Attorney General Department is currently taking necessary actions. | Ensure that Internal control procedures are in place to prevent from under mentioned situations in future. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre – tax net loss of Rs. 505,408,042 and the corresponding profit in the preceding year amounted to Rs. 1,877,317,582. Therefore massive deterioration amounting to Rs2,382,725,624 of the financial result was observed .The reasons for the deterioration are significant increase in cost of sales and administrative expenses especially due to 23 per cent increase and increase in finance cost etc.

2.2 Trend Analysis of major Income and Expenditure items

| Description | Variance Amount Rs.Mn | Variance Increase/ (Decrease) per cent | Reason for the Variance |
|---------------------------|--------------------------|---|---|
| Cost Of Sales | 1,625 | 11 | Increase in Personnel cost due to salary increase, in pumping cost, repair maintenance, rent & rates etc. |
| Other Operating Income | 662 | (38) | Decrease in sewerage, ground water and surcharge income |
| Interest on Loans | 263 | 1922 | Increase in loan disbursements during the year. |

2.3 Ratio Analysis

According to the information made available, some of the important ratios of the Board for the year under review and the preceding year are as follows.

| Year | 2018 | 2017 |
|--------------------------------------|--------|-------|
| Gross Profit Margin | 36.22 | 40.50 |
| Net Profit Margin | (2.30) | 7.61 |
| Current Ratio (No. of time) | 2.81 | 4.14 |
| Liquidity Ratio (No. of times) | 2.48 | 3.72 |
| Total Asset Turn over (No. of times) | 0.05 | 0.05 |

According to the above information key financial ratios of the board for the year under review had shown an unfavorable condition as compared with the proceeding year. The net profit margin for the year under review had drastically decreased to a net loss margin of 2.30 per cent compared with the proceeding year. Current Ratio and the Liquidity ratio had been further decreased by 1.33 and 1.24 times respectively due to withdrawal of investment and gradual increase of loan and other payables during the year.

3. Operational Review

3.1 Uneconomic Transactions

| Audit Issue | Management Comment | Recommendation |
|---|------------------------------|--|
| i. As a solution for drinking water problem caused by mixing of sea water to kalu river, a contract to construct a salinity barrier had been awarded at a contract value of Rs.11,284,500 on 03 | Comments had not been given. | Ensure that contracts were planned to achieve intended objectives. |

February 2016. However, the entire expenditure incurred had become uneconomic, since the contamination of salt in water had not been decreased as expected.

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|--|-----------------------------------|--|
| <p>ii. Under Rs.3.5 billion loan facility, in order to enhance the pipe laying for 16,700m in Galle District, a contract had been entered in 16 February 2015 for nine months period. For the above pipe laying activities a contract amounting to Rs.75,582,616 for the procurement of pipes and fittings had been entered in to and procurements had been made accordingly. However, pipe laying had been made with regard to only 3 water supply schemes out of nine schemes mentioned above, for only 1179 meters. Hence after completing 7 per cent of the project activities, the contract was terminated. Accordingly money incurred on purchasing pipes & fittings for balance laying had become uneconomical.</p> | <p>No comments had been given</p> | <p>(i) Ensure that contracts were planned to achieve intended objectives. (ii) Ensure that a proper monitoring mechanism is in place from the commencement to the completion of a project.</p> |
|--|-----------------------------------|--|

3.2 Identified Losses

| Audit Issue | Management Comment | Recommendation |
|---|-------------------------------------|---|
| <p>i. Due to delay in clearance of raw material containers from port, an amount equivalent to Rs.625 million had been incurred as demurrages with regard to nine projects implemented during the year under review.</p> | <p>Comments had not been given.</p> | <p>Necessary actions should be taken to clear the imported goods without any delay.</p> |
| <p>ii. As per information furnished to audit relating to monthly rent of 50 quarters in Anuradhapura Regional Support Center, a monthly rent ranging from Rs.60 to Rs.500 only is being charged from 34 quarters.</p> | <p>Comments had not been given.</p> | <p>Actions should be taken to revise monthly rent for quarters.</p> |

3.3 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>i. It was observed that an outstanding balance more than 3 months amounting to Rs.3,820,937 had to be recovered from 60 consumers whose bill value is more than Rs.25,000 as at 08 April 2019 in Anuradhapura Regional Support Center. However no action had been taken to disconnect the connections as at that date.</p> | <p>No comments had been given</p> | <p>Immediate actions should be taken to disconnect connections of arrears consumers.</p> |
| <p>ii. The activities of the Greater Colombo Water Rehabilitation Project had been substantially completed as at 31 December 2016. However, it was observed that the project had procured a land on lease basis from the Divisional secretary of Kolonnawa in 2001 for construction of a water tower and office building and a sum of Rs.4.2 million paid up to 31 December 2018 without entering in to a lease agreement.</p> | <p>No comments had been given</p> | <p>Actions should be taken to make payment based only on commitments only and no any payments release without a proper agreement to pay.</p> |
| <p>iii. A fraud of Rs.1,145,235 committed at Kaluthara Region by a meter reader during 2008 to 2017 had not been recovered from the responsible persons even up to 31 March 2019. Further, it was observed that no proper mechanism had been introduced by the board to recover losses from employees due to forged meter reading and the administrative circulars to that effect had not been updated in timely manner.</p> | <p>The meter reader has incorrectly recorded the reading and therefore the NWSDB had to incur a loss of Rs.1.1Million. Currently the employee has left the service without properly informing the organization.</p> <p>Action has been taken to calculate the loss and it has been informed to the Commercial Division to introduce a system to calculate the losses for such instances.</p> | <p>Immediate actions should be taken to introduce a proper mechanism to recover losses from employees due to forged meter reading and to update the existing administrative circulars to that effect.</p> |

3.4 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|---|----------------------------|--|
| ----- | ----- | ----- |
| Due to poor debt servicing capacity of the Board, the value of the outstanding loan amounting to Rs.67,153,332,380 which had been obtained for the projects commenced after the year 2014 had been transferred to Government Equity account from the year 2015 to 2018. However, as per the records of the General Treasury an amount equivalent to Rs.54,937,651,218 had been capitalized as loans payable on behalf of the National Water Supply and Drainage Board. Hence, an amount equivalent to Rs.12,218,681,163 payable by the Board as foreign loans had been transferred to Government Equity without any approval. | No comments had been given | Actions should be taken to improve cash flows in order to meet the liability of debt servicing in near future. |

3.5 Transactions of Contentious Nature

| Audit Issue | Management Comment | Recommendation |
|--|----------------------------|---|
| ----- | ----- | ----- |
| i. Imported stocks in transit as at 31 December 2018 was amounting to Rs.1,345,932,727. Out of that stocks amounting to Rs.740,955,941 had remained as stocks in transit over six months without being investigated. | No comments had been given | Actions should be taken to investigate the long outstanding stocks in transit balances. |
| ii. All stocks receipts and issues should be recoded in stock records prior to physical verification of stocks. However, a net debit balance aggregating to Rs.445,785,905 and net credit balances aggregating to Rs.306,580,310 in respect of stocks receipts and issues had been adjusted to the stock balance after the verification. | No comments had been given | Actions should be taken to record all stocks receipts and issues in stock records prior to physical verification of stocks. |
| iii. An abnormal credit balance amounting to Rs.35,315,564 are shown as stocks in transit with regard to four cost centers of special monitoring sections. | No comments had been given | The abnormal credit balance in stock in transit should be investigated and cleared. |

- | | | |
|---|----------------------------|---|
| iv. An aggregate abnormal debit balance of Rs.2,897,360 was observed in creditors control account as at 31 December 2018. | No comments had been given | The abnormal debit balance in creditors control account should be investigated and cleared. |
|---|----------------------------|---|

3.6 Under -utilization of Funds

| ----- Audit Issue ----- | ----- Management Comment ----- | ----- Recommendation ----- |
|---|---|--|
| i. Out of foreign fund allocation of Rs.7 billion and Rs.13.6 billion for Gampaha, Attanagalla and Minuwangoda Integrated water supply project and Kaluthara, Mathugama, Agalawatta Intergrated Water Supply Project respectively for the year under review, only Rs.950,942,952 and Rs.2,183,249,626 or 14 per cent and 16 per cent respectively had been utilized during the year under review. | <p>The GAMIWSS project value is LKR 29.1 billion and contract period is three years commencing from Feb- 2017. Therefore, the prediction of 7.0 billion for year 2018 was a realistic figure.</p> <p>However, 30% of the contract works that is Rs.9.6 billion was sub contracted to NWSDB. Only the contracts amounting to Rs. 2 billion were awarded during 2018 and therefore only 20% advanced payment that is Rs. 0.4 billion were utilized. A Cabinet Paper submitted by the Finance Minister insisting re-negotiation of the awarded Main contract resulted not appointing TECs for two contracts and suspending the recommendation of another contract for cabinet approval. Later part of the year the Cabinet also not functioned for few months and Cabinet approvals for awarding were impossible during the year 2018 for these IDW contracts. This caused huge impact on procurement of IDW which is total beyond control of NWSDB and reduced disbursement of Rs. 1.5 billion for advances of IDW contracts scheduled during 2018.</p> <p>Total of supplying of pipes, fittings & other materials for IDW were scheduled to be completed within 2018. Although, Cabinet approval was given for local component of GAMIWSS including land acquisition and resettlement, custom duty, VAT etc., adequate funds were not allocated through Capital Budget. Alternatively, NWSDB has to obtain this facility through a loan from</p> | Ensure that funds allocated for projects are fully utilized. |

Local Bank (People's Bank). Since the Budgetary allocation was inadequate, several shipment of materials supplied were held at the port due to not paying the VAT, NBT and Custom duty, and further accumulated port authority levy and port rent as demurrages. Further special Cabinet Approval has to be obtained for utilizing the local bank loan for paying custom duty and no any provision was available for port authority levy and port rent as demurrages. Due to this uncontrollable situation several shipments of materials had to be delayed for an indefinite period. Accordingly, payment of supplying of materials estimated were Rs. 3.2 billion and but only disbursed Rs.0.4 billion during 2018.

Due to delay the clearing the shipments of material, not only the payment for supply as well as caused the delay of progressing the laying of them. Therefore, planed disbursement for laying was impossible with not awarding the Contracts and not having ability to supplying the materials for laying.

| | | |
|--|-----------------------------------|---|
| <p>ii An allocation of Rs.7,005,042 had been allocated as government contribution for Moratuwa, Rathmalana, Ja-ela, Ekala Waste Water Development Scheme during the year under review. However no expenditure had been incurred thereon.</p> | <p>No comments had been given</p> | <p>Ensure that funds allocated for projects are fully utilized.</p> |
|--|-----------------------------------|---|

3.7 Idle or underutilized Property, Plant and Equipment

| Audit Issue | Management Comment | Recommendation |
|--|----------------------------|--|
| i. A sum of Rs.166,993,899 had been spent for construction of laboratories for Greater Kandy Water Supply Project. However, the laboratories had been abandoned due to failure in recruiting staff. | No comments had been given | Immediate actions should be taken to utilize the resources of laboratory constructed under Greater Kandy Water Supply Project. |
| ii. Water meter spare parts costing Rs.19,106,552 which are not in usable condition had remained idle at main stores of the Board. However, actions had not been taken to return them to suppliers. | No comments had been given | Immediate actions should be taken to return the water meter spare parts to the suppliers that are within the Warranty period. |
| iii. Twenty three thousand nine hundred twenty two (23922) water meters valued at Rs.95,495,710 in three different diameters had remained in the main stores as at 10 October 2018. However, based on average annual consumption of these water meters, audit revealed that these item will have to be hold for another 5 to 10 years by incurring huge cost in terms of holding and interest. | No comments had been given | Actions should be taken to place orders for water meters after considering their stock control levels in future. |
| iv. Four thousand nine hundred eighty two (4982) water meter spare parts in six dimensions amounting to Rs.13,724,670 which are not in usable conditions had remained in Rathmalana workshop over 1 to 6 years as at 31 October 2018. Further, the warranty period had been expired in respect of spare parts amounting to Rs.3,409,612. | No comments had been given | Actions should be taken to place orders for water meter spare parts after considering their stock control levels in future. |

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|-------|--|--|--|
| v. | Three water tanks and three pump houses relating to three Water Supply Projects and a Sewerage Project of operating and maintenance office (O&M) in Galle had remained idle since year 1982. | No comments had been given | Actions should be taken to utilize the water tanks and pump houses. |
| vi. | Non-moving stocks and slow-moving stocks as at 31 December 2018 amounting to Rs.511,522,599 and Rs.616,322,384 respectively. It had represent 6 and 7 per cent respectively of the total stocks of the Board. | As per the nature of the service provided by the NWSDB we cannot wait to attend a repair until the required pipe fittings are being imported. Therefore certain types of pipe fittings are imported and kept at the site office to attend any urgent works. | Actions should be taken to place orders for inventory items after considering their stock control levels in future to avoid Non-moving stocks and slow- moving stocks. |
| vii. | The Greater Galle Water Supply Project had acquired a land in year 2012 by incurring Rs.16 million for the construction of Hapugala Water Refinery Plant. However, such land had not been utilized for the intended purpose even as at the end of the year under review. | No comments had been given | Actions need to be taken to find alternative usage for the land. |
| viii. | It was revealed in audit that Laboratory equipment costing Rs.1,027,059 had been remained idle at the officer in charge Awissawella. | Laboratory equipment could not be utilized, since a Chemist could not be obtained as there was no cadre approval to employ a Chemist. The service of the Chemist from Maharagama Manager Office is now being obtained from the year 2019. | Action need to the introduce to utilize resources when even they are available. |
| ix. | In order to provide water supply for Jaffna Kilinochchi Region, the construction of plant for removing salt from sea water had been scheduled to be completed in 2022. Accordingly, the construction of 15 water towers at a cost of Rs.1140 million and treated water transmission pipe laying at a cost of Rs.5,536 million had been completed in 31 | ADB Loan for Jaffna-Killinochchi Water Supply and Sanitation Project (JKWSSP) was effective from May 2011. Iranamadu irrigation tank in Killinochchi has been selected as the water source for the project. This tank is being used by farmers in Killinochchi district to irrigate their cultivations. A Memorandum | (i)Actions need to be taken to investigate the possible alternative ways to use the above idling assets. (ii) Actions need to be taken to execute a proper feasibility study before starting a project. |

December 2018. However, all these constructions had remained idle due to non-availability of source of water.

of Understanding (MOU) was signed in 2007 between the National Water Supply and Drainage Board (NWSDB) and Ministry of Agriculture and Irrigation of North East Provincial Council to share water with farmers. The project planned to raise Iranamadu tank retaining capacity bund by 2 feet to enhance water.

Due to water sharing issue and following major scope change to Sea Water Desalination (RO Plant) from Surface Water of Iranamadu Tank, the project has been restructured.

Most of the small scales Water Supply Schemes operated by NWSDB in Jaffna District are very old. Further leakages, limited capacities and inadequate tower heights affect the present supply system. Under these circumstances these above said packages would help to improve the distribution system and also will be able to accommodate future water supply program. Until completion of construction of Sea Water Reverse Osmosis Plant in 2022, actions taken to utilize the existing water sources to feed some constructed water towers as Puttur, Poonery, Kaddudai, Velanai and Mandaithivu Elevated Water Tower.

- x. A Water Tower, a Pump House, a Transmission and a Distribution Main had been established by incurring Rs.253.83 million by Panama Water Supply scheme After four (04) boreholes were commissioned, the actual yield was not adequate and the available quantity was made use for improvement of service Actions need to be taken to execute a proper feasibility study before starting a project.

under Eastern Province Water Supply Development Project.

However, all these constructions are remained idle due to unavailability of source of water.

level in the Pothuvil System.

Therefore, the O&M section is presently in the process of identifying ground water sources for Panama WSS.

3.8 Delays in Projects or Capital Work

Audit Issue

A considerable delay was observed with respect to seven foreign funded projects due to poor performance of the contract delay in land clearance, environmental and resettlement issues, delay in contract awarding, low quality of PE pipes supplied by the contractor etc. Details are as follows.

| Project | Estimated Cost (Rs. Mn) | Date of Commencement | Date of Completion | Period of Extension | Number of Days Delayed |
|--|-------------------------|----------------------|--------------------|-------------------------|------------------------|
| Dry Zone Water Supply and Sanitation Project | 19,165 | 13/11/2009 | 31/12/2016 | 31/12/2016 - 31/12/2018 | 730 |
| Jaffna Kilinochchi water supply & Sanitation Project | 16,475 | 15/02/2011 | 14/08/2017 | 14/08/2017 - 31/12/2020 | 1234 |
| Kandy city Waste Water Management Project | 17,278 | 03/02/2010 | 30/09/2017 | 30/09/2017 - 31/12/2021 | 1552 |
| Greater Colombo Waste Water Management Project | 13,410 | 18/12/2009 | 31/12/2014 | 31/12/2014 - 30/03/2017 | 819 |
| Greater Colombo Water Rehabilitation Project | 4,785 | 27/11/2007 | 31/01/2012 | 31/01/2012 - 20/06/2017 | 1965 |
| Badulla Haliela Water Supply Project | 11,809 | 01/12/2013 | 31/08/2017 | 31/08/2017 - 15/08/2018 | 349 |
| Eastern Province Water Supply & Development Project | 7,702 | 20/03/2010 | 20/12/2013 | 20/12/2013 - 31/01/2018 | 1502 |

Management Comment

| Project | Estimated Cost Rs. Mn | Date of Commencement | Date of Completion | Period of Extension | No. of Days Delayed |
|-----------------|-----------------------|----------------------|--------------------|--------------------------|---------------------|
| Original loan | 12,625 | 06-05-2011 | 14-11-2017 | 15-11-2017 to 31-12-2020 | 1,143 |
| Additional loan | 23,256 | 15-03-2018 | 30-06-2026 | | |
| Total cost | 38,881 | | | | |

Recommendation

Actions should be taken to avoid project delays and thereby extensions to contractors and in the instance of an extension is given to a contractor, ensure the deduction of delay damages as per the provisions in the contract agreement.

Due to water sharing issue and following major scope change to Sea Water Desalination (RO Plant) from Surface Water of Iranamadu Tank, the project has been committed to restructure to achieve its objectives. As a result of major scope change, the project was unable to award its major Civil Works Contracts in 2012, 2013 and 2014. Having finalized scope change, this project has been restricted and following by implementation plan was also revised after additional financing. After that, the project awarded the following Civil Works Contracts in 2013 to 2018

1. Supplying and Laying of Distribution Networks Package 01
2. Construction of Water Towers Package 01 and 02
3. Supplying and Laying of Treated Water Transmission Mains Package 01 and Package 02
4. Supply and Laying of Distribution Networks Package 02

After awarding these Civil Works Contracts, the project has shown significant physical and financial progress at the end of 2018.

Further, according to revised implementation plan, the project is going to award the following Civil Works Contracts (1) Construction of Water Towers (ET03) (2) M&E and SCADA in 2018 under original loan and Supply and Laying of Distribution Networks in JMC area under original loan.

Dry Zone WSP

1st Loan (L 2477) closing date is 30th June 2014

Subsidiary Loan (L 2977) original closing date is 31st December 2016

Therefore, original project completion date shall be considered as 31st December 2016.

Date of Extension shall be 31.12.2016.

Number of days delayed – 730

Badulla Haliela WSP

Period of extension mentioned for Badulla - Haliela – Ella WSP under item no. “4.3- Delayed Projects” to be corrected as 31.08.2017 to 30.11.2017 and no. of days to be corrected as 91.

Please note that the works were delayed due to the delay in land acquisition for the dam construction and contractor was not paid any variation in this regard.

3.9 Procurement Management

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| i. As per the section 4.2.1 (a) of the Government Procurement Guidelines a Master Procurement Plan including expected procurements for forthcoming three years period had not been prepared by the board. | The Master Procurement Plan had been prepared and submitted by the NWSDB to the respective line Ministry on 4 th January 2018. | Should adhere to the provisions in the government procurement Guidelines. |

- | | | | |
|------|--|---|---|
| ii. | Contrary to the provisions in the sections 7.12.2 of procurement guideline the Contract for Design, Build and Construction of warehouse to store HDPF Pipes at Aniyakanda, E-kala and Church Hill reservoir site had been awarded for Rs.868,123,308 that is more than 37.82 per cent as compared with engineer estimate. Hence due to non-planning of construction of above ware house prior to importation of goods board had incurred such an additional cost of Rs.23,826,788. | The engineers estimate is prepared according the rate book but the bidders quote the prices in the bid as per the market rate. Therefore there will be a difference. The TEC committees scrutinize it and provide their recommendation to the relevant procurement committee. | Should adhere to the provisions in the government procurement Guidelines. |
| iii. | Approval of the Board of Directors had not been obtained for the Detailed Procurement Plan prepared for the year 2018. | The Secretary of the Ministry of City Planning, Water Supply & Higher Education is the Chief Accounting Officer of the NWSDB. Hence the Procurement Plan for the year 2018 has been submitted for his approval. | Board approval should be obtained for the Procurement Plan. |
| iv. | Procurement Plan had not been reviewed and updated periodically. | The Procurement Plan is reviewed by the line Ministry, Policy and Planning Division of the NWSDB and the respective RSC's of the NWSDB. | Procurement plan should be reviewed periodically. |
| v. | As per the test check done by audit it was observed that in some instances delay damages had not been charged from the supplier in terms of the provisions of the offer letter. | Noted | Should adhere to the provisions in the contract agreement. |
| vi. | Contract for Supplying fourteen (14) hiring vehicles to Anuradhapura & Polonnaruwa regions to the contract value of Rs.22,940,600 had been selected based on a advertisement published in one newspaper. Since only one or two bidders had been responded, selection of most responsive bidder had been done without sufficient competition. | Noted | Should adhere to the provisions in the government procurement Guidelines. |

3.10 Defects in Contract Administration

| Audit Issue | Management Comment | Recommendation |
|---|----------------------------|---|
| <u>3.10.1 Greater Colombo Water and Waste water Management Investment Programme – Project 01</u> | No comments had been given | (i)Actions need to be taken to expedite the project’s works so as to complete the project with in contract period. (ii) Should adhere to the provisions in the contract agreement. |
| The following observations are made. | | |
| (a) The project commenced its activities on 28 June 2013 and schedule to be completed on 30 th June 2018. However, due to poor performance of the contractor, Asian Development Bank has approved for the extension of the project up to 30 th June 2019. | | |
| (b) According to the progress report of the programme, the overall physical & financial progress as at the end of the year under review had remained at 55.05 per cent and 67 per cent respectively. | | |
| (c) Asian Development Bank has granted an extension of loan closing date of the Project up to 30 June 2019 subject to the completion of all activities of the Project before 30 June 2019. However, completion dates of the contracts for NRW consultancy, public awareness and media campaign had been determined as 21 February 2021 and 31 October 2020 respectively, which beyond the revised loan closing date of the Project. | | |
| (d) As per initial design of the pipe laying of System Rehabilitation for NRW reduction in North part of Colombo city contract, the excavated soil and imported soil were recommended to use for the backfilling of the pipe trenches. | | |

After awarding of this contract, project had decided to use quarry dust instead of use the excavated soil and imported.

- (e) Contract for System Rehabilitation for Non-Revenue Water in North, East, West and south part of Colombo city shows an over, slow physical Progress in terms of pipe laying and pressure testing, number of houses had connections given.

3.10.2 Ambathale Energy Saving Project

The following observations are made.

- (a) The total project implementation period of this project was 63 months and out of that, 51 months had been elapsed as at 31 December 2018. However, the overall physical progress as at that date was only 10.84 per cent due the poor performance of the contractor. Further it shows only 3.14 percent increase in physical progress compared with end of the year 2017.
- (b) The main contract of replacing old pipe line for 9 kilometers with 1200 mm diameters capacity of new pipes was scheduled to be completed on 04 May 2018. However, due to poor performance of the contractor the period of completion had be extended up to February 2019 and only 1316.2 meters had been laid as at 31 December 2018.
- (c) Another contract for pipe laying for 5 Kilometers from Gothatuwa Reservoir to Colombo and construction of a ground water reservoir of 15000 m³ capacity had

- (a) Details given below are the reasons for the delays of each project and the remedial actions, taken by PMU. Other than that, Awarding of ICB 06 Contract was delayed due recalling of tender as the all bidders were lacking the experience. However, it has been awarded in 19.10.2018. Also, the mobilization of scheduled staff under Consultancy Contract (DRCSC) was caused to defer to suit consultant's expert input requirement with the progress of Construction Contracts of AWSSIESP.
- (b) Initially, Contractor has delayed the Material supply by 11 months due to the Contractor's poor performance. After, the NWSDB granted the approval of extension of time by 291 days to the Contractor, accordingly the Contractor
- (i) Actions need to be taken to expedite the project's works so as to complete the project with in contract period.
- (ii) Should adhere to the provisions in the contract agreement.
- (iii) Actions need to be taken to complete the project activities as per programme.

been awarded in 04 January 2018. However, the construction works had not been commenced even by 31 December 2018.

- (d) It was observed that four years and three months time period or 80 per cent of the contract period had been spent to award the main contract for electrical, mechanical, fitting of equipment and civil works contract which directly affect to the reduction energy cost.

completed 1.316 km pipe laying out of 9.0 km. However, AFD has temporary stopped the fund disbursements due to non - compliance of the loan agreement condition and practice of GOSL from March, 2018. Therefore, NWSDB were unable to settle the interim payment to Contractor. Finally, the Contractor has terminated the Contract on 01st Sept. 2018 due to non-payment.

NWSDB has negotiated with the Contractor to recommence the Contract. As a result of that, amendment to the contract agreement was signed on 04.01.2019 to recommence the project. Accordingly, the conditions of amendment are being fulfilled by the Contractor and NWSDB in order to re commence the Contract.

- (c)The ICB 03 Contractor was not fully mobilized. There was no meaningful work performed at the site by Contractor. PMU has issued the “Notice to Correct” to the Contractor. But, the Contractor have not shown any significant progress and they have put a court case.

Then the decision was taken by the Secretary of Ministry of City Planning & Water Supply to mutually terminate the ICB 03 Contract in order to award the ICB 03 Contract to second lowest bidder and complete the project.

The Contractor agreed to mutually terminate the contract at the special meeting held at the Ministry on 05th & 28th December, 2018. The process of signing of mutual termination agreement is in progress. However, the ICB 03 Contract was delayed entirely due to above reasons.

(d) The bidding process of ICB 05 Contract is two stage two envelop bidding. Generally, it takes time than other bidding procedures. However, there were delays in procurement process of ICB 05 Contract due to Change of SCAPC (tender board) Committees Members, requesting more clarifications from the bidders and Changing of TEC members. However, the Contract was awarded on 10th September, 2018 and project was commenced on 13.12.2018.

However, the awarding of the Contract was delayed due to above reasons.

3.10.3 Eastern Province Water Supply Development Project

It was expecting to lay distribution mains for 80 and 28.5 Kilometers for Maha Oya and Kondawatuwuna Water Supply Schemes respectively. However, the actual laying was confined to 73 Kilometers for above two schemes.

As per the original designs, the Maha Oya distribution mains length was 80 km. However, due to implementation of eight (08) RWS schemes in the Maha Oya DS division, the Pradeshiya Sabha of Maha Oya DS division informed in writing to NWSDB, not to lay pipes in those areas. Therefore only 48.29 kms were laid.

In respect 28.5 kms of Kondawatuwana WSS, this is a transmission main from Saddhatissa Tower to Kalmunai Sump. We had to reduce the above transmission length by re-routing the pipeline due to RDA restrictions. Such reduction was about 3.5 km. According to above reduction, it is true that laying length was confined to 73 km.

A proper coordination should be maintained with related organizations (such as DS divisions and Road Development Authority) before estimating for laying works.

3.10.4 Greater Colombo Waster Water Management Project

The following observations are made.

(a)The project commenced its activities on 18 December 2009 with the objective of improving the urban environment and public health services for the urban & suburban residents in the Grater Colombo area by providing proper waste water management.

No comments had been given

(i) Actions need to be taken to expedite the project's works so as to complete the project within the contract period.

(ii) Ensure that no any impact occurred due to project activities to the environment.

(b)The project was scheduled to be completed by 31 December 2014. However, due to poor performance of the contractor it was extended up to 30 March 2017.

(c)The project had been formulated with broad perspective of improving the urban environment and public health and systematic disposal of sewerage and waste water through exiting channels of disposal. However, during the field audit inspection carried out on 24 July 2018 it was observed that sludge out from the process is buried at the pump station premises at Kolonnawa without being purified. Eventhough a similar matters had been occurred previously no action had been taken to mitigate the possible risk on environmental pollution.

(d)It was observed that the proposal made by the Lending Agency to procure two (02) backup generators for the use of waste water pumping station at Dehiwala, as a alternative solution for wastewater sea outfall had not been implemented by the Project, due to different opinions of the officers of the Project and National Water Supply and Drainage Board.

3.10.5 Kandy City Waste Water Managent Project

The objectives of the project is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment and disposal of waste water in the city of Kandy including rehabilitation of sanitation facilities in densely populated areas

(a) The Ministry has referred this matter to the JICA to extend the project period upto 4th July 2022. Further it should be noted that the Kandy City is an archeology site and is a very congested area and hence these have affected the progress of the project.

(i) Actions need to be taken to expedite the project's works so as to complete the project with in contract period.

(ii) Should adhere to the provisions in the contract agreement.

and thereby enhance the standard of living, health and well – being of the people in the area.

(a)The project commenced its activities on 3 February 2010 and scheduled to be completed by 30 September 2017. Even though the project works had not been completed within the scheduled time period an extension was not taken. However, the actual physical progress as at 31 December 2018 was 60.43 percent.

(b)The Contract of the design and construction of waste water treatment plant, main pump station, treated effluent disposal system, sludge drying beds and supply of operation maintenance equipment commenced in January 2015, after lapse of 03 ½ years from the scheduled date of commencement had shown slow progress of 60 percent as at 31 December 2018.

(c)The Contract of the design and construction of trunk sewers, branch sewers and manhole pump stations scheduled to be commenced in July 2011 had been awarded in October 2013. Further, the works under the laying of 2,396 meters of trunk sewer pipes had been completed even up 30 June 2018, out of the estimated length of the laying of 9,105 meters of pipes to be completed as at that date. In addition the construction works of two(02) manhole pumping station had been completed, out of the nine (09) manhole pumping stations to be completed as at 30 June 2018.

(d)As per the project documents, the activities under the package of design and construction of property connections expected to be completed by 2017 had been commenced in July

(b) The major construction activities of the Plant have been already completed and the balance work will be completed by the end the year 2019.

(c) Also approvals have to be taken from various stakeholders such as UDA, Archeology Department, RDA, Central Environment, Kandy Municipal Council etc.

(iii)Actions need to be taken to complete the project activities as per programme.

2016. However, the works under the respective contract is agreed to be completed in 2021, without considering the date of completion of the activities of the Project on 30 September 2017.

3.10.6 Polgahawela, Pothuhera and Alawwa Integrated Water Supply Project

The objective of the Project is to provide safe drinking water by constructing and expanding water supply facilities in four DS Divisions namely Polgahawela, Alawwa, Kurunegala (part), Weerambagedara (part) and Mallawapitiya (part) giving benefits to 162,725 people at the planned year 2037. The Project has commenced its activities on 02 March 2017 and scheduled to be completed by 01 March 2020.

The following observations are made.

- (a) According to the Progress Report prepared by the board the target physical progress of the project as at the end of the year under review was 69.3 percent. However, the overall actual physical progress of the project was only 39.4 per cent and the progress of the project is below the work programme.
- (b) As per section 4.2.3 of the procurement manual of 2006, the procurement process of the competitive bidding procedure required to be completed within 60 weeks (420 days). Even though the supplement 23 of the Procurement Guide line part II of 1998 regarding the unsolicited proposals needed to

- (a) The Contractor has submitted the catch up programme at the end of December 2018.
- (b) This was under Ministry Procurement Committee. Extension was with the approval of Procurement Committee. Agreement was signed after completion of negotiations & fulfilling the funding requirements.
- (c) All estimates for excavation of RDA roads had been received as at that time and Contractor arranged to pay for the estimates of two RDA roads according to their programme. Also, the payment for balance 8 no's of estimates would be paid as per their construction programme. Therefore, this matter did not affect the progress of the Project.
- (i) Actions need to be taken to expedite the project's works so as to complete the project with in contract period.
- (ii) Should adhere to the provisions in the contract agreement.
- (iii) Actions need to be taken to complete the project activities as per programme.
- (iv) Should adhere to the provisions in the Government Procurement Guideline.
- (v) Prior approvals for the excavation of RDA roads for laying should be obtained from the Road Development Authority (RDA) before the handing over of the site for laying.

be carried out and urgent basis, procurement entity had spent three (3) years and five (5) months for signing the contract agreement on 27 November 2015 from the closing date of the bid submission dated 29 June 2012.

- (c) Prior approvals for the excavation of RDA roads for laying required to be obtained from the Road Development Authority (RDA) before the handing over of the site for laying. However, it was observed that the approvals have not been received for eight (8) Nos of pipe laying roads of the project even up to 23 October 2018.

3.10.7 Anuradhapura North Water Supply Project Phase I

The objective of the Project is to provide safe drinking water and increase water supply coverage by constructing a water supply system in Medawachchiya and Rambewa DS divisions of Anuradhapura North area, thereby contributing to improving hygienic status and health condition in the area.

The following observations are made.

- (a) The project commenced its activities in February 2013 and scheduled to be completed by February 2018.
- (b) Subsequently, the period of the project had been extended up to 30 April 2020 due to delay in detailed designs and awarding process of the contract.
- (c) According to the progress report of the board, the overall Physical and

(a) The Project commencement is in Feb 2013 and scheduled to be completed by Feb 2018. But the awarding took place as follows.

1. Detailed Design & Preparation of Tender document – The Scheduled period is 10 months but the Actual taken period is 12.5 month.
2. TEC Report preparation – The scheduled time period is 3 month but the Actual taken period is 8.5 months.

Due to the complications in the document clarifications were called by the consultant, and consequently same clarifications were called by the bidders, delay in

(i) Actions need to be taken to expedite the project's works so as to complete the project with in contract period.

(ii) Ensure that comply with the provisions in the contract agreement.

(iii) Actions need to be taken to complete the project activities as per work programme.

financial progress of the project at the end of the year under review had shown slow progress of 22.67 percent and 25 percent respectively against the expected progress of 27.67 per cent and 33.5 per cent respectively.

(d) After laps of 4 years and 10 months from the commencement of the activities of the project, the main contract of intake facility, water treatment plant, ground sumps, elevated towers, office building, mechanical and electrical works (Lot-A) had been awarded only on 23 March 2018.

(e) Contract for supply and laying of HDPE, DI transmission main and distribution main (Lot-B) was awarded on November 2017 after lapse of 4 years and 09 months from the date of commencement of the activities of the project. However, by the 30 September 2018 pipe laying was completed only 4627.18 meters out of the 252,353 laying meters of the contract, equivalent to 1.83 per cent, even though the contract is scheduled to be completed by December 2019.

(f) Contract for laying of UPVC pipes, fitting and specials and supply and laying of DI and GI pipes (Lot c 1) was awarded in October 2016 after laps of 3 years and 09 months from the date of commencement of the activities of the project. However, by the 30 September 2018 pipe laying was completed 101,073.46 meters out of the 112,311 laying meters of the contract equivalent to 89.99 percent.

awarding the contract by 2 years and 2 months even though scheduled for 1.5 years.

(c) The Progress delays occurred due to RDA approvals, adverse weather, labor shortages etc.

(d) The Project commencement is in Feb 2013 and scheduled to be completed by Feb 2018. But the awarding took place as follows.

3. Detailed Design & Preparation of Tender document – The Scheduled period is 10 months but the Actual taken period is 12.5 months.

4. TEC Report preparation – The scheduled time period is 3 month but the Actual taken period is 8.5 months.

Due to the complications in the document clarifications were called by the consultant, and consequently same clarifications were called by the bidders, delay in awarding the contract by 2 years and 2 months even though scheduled for 1.5 years. Hence the Lot A awarding was also delayed until 23rd March 2018.

(e) The Lot B was awarded only in November 2017 as there was a petition filed by

a third party. Therefore investigations have to complete to proceed. Finally JICA informed in the month of March 2017 that the lowest bidder is eligible. The 2nd lowest bidder was considered as eligible in the month of July 2017 and hence the awarding was done in November 2017.

(f) The consultancy contract was completed only in July 2014 and the preparation of the TEC report in detailed design was submitted to the Ministry in the month of March 2016. Later the Tender calling and awarding procedure was executed until October 2016.

3.10.8 Matara Stage IV – Water Supply Project

The Project had been commenced in order to provide drinking water for 321,954 populations expected to be in 2030.

The following observations are made.

(a) As per section 4.2.3 of the procurement manual of 2006, the procurement process of the competitive bidding procedure required to be completed within 60 weeks (420 days). Even though the supplement 23 of the Procurement Guide line part II of 1998 regarding the unsolicited proposals needed to be carried out and urgent basis. However it was observed that due to

(a) not commented.

(b) Under the Addendum no 04 it was agreed to DI/PE for Transmission mains. As per the agreement, any correction should be done at the final drawing and the contractor agreed to correct them at his own cost.

(c) It was due to legal Case filed by the Land owners against the acquisition.

(d)The required target will be achieved through a crash programme. This delay was due to land acquisition and has now being resolved.

(i) Actions need to be taken to expedite the project’s works so as to complete the project with in contract period.

(ii) Should adhere to the provisions in the contract agreement.

(vi)Should adhere to the provisions in the Government Procurement Guideline and FIDIC Guidelines.

(vii) Actions need to be taken to complete the project activities

- inefficient procurement process it had been taken more for 5 years from June 2011 to July 2016 for calling expression of interest from bidders and awarding contract to the selected bidder.
- (b) When calling for bids it was agreed to use DI pipes for laying activities. However, it was observed that contractor had procured PE pipes instead of DI pipes even before obtaining the approval for final drawing. Further it was observed that Rs.17,014,944 had been provided for the procurement of DI pipes in the engineering estimate.
- (c) As per condition 8.1 of the FIDIC guidelines within 42 days of contract awarding to the selected bidder activities should be commenced and as per the section 2.1 of the said guidelines actions should be taken by the employer to obtain permission to enter into the site from respective institutions. However, even 2 years had been lapsed after awarding the contract, it had been failed to obtain the right to access to the land proposed to construct Water Treatment Plant in Malimbada.
- (d) The actual progress of the project as at 31 December 2018 was as low as 9 per cent as against the expected progress of 12 percent. Hence it is in doubt as to whether it is able to complete the project by the end of 10 October 2020 as expected.
- (e) The activities for the construction of salinity barrier had not been commenced even by April 2018 after a delay of 6 months due to failure to acquire the required land situated at Malimbada before the starting date.
- (e) The salinity barrier is currently in progress
- (f) This delay was due to land acquisition and has now being resolved.
- (g) Location of towers, reservoirs, pump houses are based on the topological survey. Such locations are also subject to site conditions. Hence the identified lands are decided accordingly. There after the land acquisitions are initiated and therefore such delays are normal.
- as per programme.

Hence the possibility of delay damages that may be requested by the contractor cannot be ruled out in audit.

(f) A considerable delay was observed in the construction of 6 ground reservoir and 4 water towers due to delay in acquisition of lands by the board and poor performance of the contractor. Further, construction of three ground reservoirs at Malimbada, Galketiya and Miriswatta and construction of water towers at Karagoda Uyangoda had not been commenced even up to 30 March 2019 due to delay in land acquisition even though the scheduled commencement date was October 2017.

(g)As per the Section 2.3.1 of the Government Procurement Guidelines prior to request been made for the appointment of a procurement committee the entity should confirm that it has completed land acquisition and resolved compensations, resettlement issues including relocation of utilities and such other matters which are necessary for uninterrupted implementation of project. However, it was observed that all most all of lands for the implementation of Matara Stage IV project had been acquired after the commencement of the project. Hence, the considerable delay in the project implementation and possibility of delay damages that may be claimed by the contractor was inevitable.

3.10.9 Colombo District Town East Water Supply Project – Phase 01

The Project had been commenced in order to provide water supply by laying distribution main covering 176 Km in Padukka, Seethawaka, Horana and Homagam Divisional Secretariat and laying transmission main for 4 kilometers.

The following observations are made in this regard.

(a) As per the Section 6.2.2 of Government Procurement Guideline, the minimum period of bidding for competitive bidding is 21 days. However, as per the paper advertisement published on 11 December 2013 only 14 days had been granted for submission of bids for 33 projects to the value of Rs.38,805 million including this project.

(b) The contract had been awarded for Rs.4,879,367,561 is 24 per cent higher than the engineering estimate.

(c) As per the rates of National Water Supply & Drainage board prevailed during the year 2017, the value in the Bill Of Quantity shown an increase of 83 per cent as compared with the payment made for HDPE & pipes and fittings.

(d) As per the bill of quantity the pipe laying of 90 mm dia HDPE Pipe was expected to be done for 32,550 meters. However, a provision for 131,000 meters had been made for supply of piped. As such an excess of 98,450 meters of pipes had been procured and an excess of Rs.77,677,050 had been paid.

(a) The procurement process was handled by the Ministry.

(b) The decision was taken by the SCAPC and the Cabinet approval was also granted for the amount.

(c) The payments for HDPE pipes and fittings were made according to the rates provided in the BOQ of the signed contract. Contractually the agreed rates cannot be changed.

(d) Normally the BOQ provide for additional quantity for laying of pipeline extensions. In the BOQ not only 90mm but also 63mm additional pipes are provided. Since the NWSDB extensions require mainly 90mm pipes those were procured and handed over to O&M for the pipeline extensions.

(e) The payments for water meters were made according to the rates provided in the BOQ of the signed contract. Contractually the agreed rates cannot be changed.

(f) The BOQ provides for only supply of connection materials. The Contractor was asked to carry out a demonstration on the sample provided. During the demonstration it was observed that the provided sample is not acceptable.

(i) Should adhere to the provisions in the contract agreement.

(ii) Should adhere to the provisions in the Government Procurement Guidelines.

(iii) Actions need to be taken to complete the project within contract period.

- (e) Total of 4,900 water meters had been purchased from 3 specifications and Rs. 20,702,600 had been paid thereof. However as compared with market rates of Rs. 11,743,000 for those water meters, it shows an increase of 76 percent.
- (f) Further it was observed that the contract period which was initially scheduled to be completed on 02 May 2018 had been extended up to October 2018. However, it was observed that materials required for service connection to the value of Rs.200,000,280 had not been purchased even by August 2018.
- The O&M Section had also attended the demonstration. Therefore the Contractor was given an option to purchase the material approved for Package 03 contract. Still the Contractor had not responded to the above suggestion nor have they proposed a new product.

3.11 Resources Released to Other Organizations

| Audit Issue | Management Comment | Recommendation |
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| <p>i. Contrary to the provisions in the Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, (85) eighty five employees had been released to the Line Ministry by 16 October 2018 and the Board had incurred Rs.58,583,402 on such employees during the year under review. Accordingly, such Rs.146,423,663 is to be reimbursed by the Ministry of City Planning and Water Supply for employees released from December 2015 to 31 December 2018. Nevertheless, as per the information provided by Ministry of City Planning & Water Supply only 19 of the above employees had actively contribute to the duties of the Ministry.</p> | <p>When requests are made by the Secretary of the line Ministry to release staff for urgent technical and other functions related to the NWSDB activities due to insufficient staff within the Ministry, the NWSDB staff are temporarily released to the Ministry on the basis of reimbursement of their salaries to the NWSDB.</p> <p>However the Ministry has informed that they do not have the required budgetary provisions to reimburse the said salaries.</p> | <p>Should adhere to the provisions in the Public Enterprises Circular No. PED/12 of 02 June 2003 regarding releasing of resources to other organizations.</p> |

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| ii. | Out of above employees, thirty five (35) employees had been recruited on contract basis as Coordinators. However the post of Coordinator is not an approved post of the Board. | No comments had been given. | Actions need to be taken to avoid the recruitment of employees outside the approved cadre. |
| iii. | Further two (2) Employees had been released to another two governmental Institutions during the year under review and board had incurred Rs.2,340,879 as salaries and wages for them. | Employees have been released to the Ministry of Internal and Home Affairs and it was informed to them to reimburse the salaries to the NWSDB. | Should adhere to the provisions in the Public Enterprises Circular No. PED/12 of 02 June 2003 regarding releasing of resources to other organizations. |

3.12 Human Resources Management

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| ----- | ----- | ----- |
| i. The Board had not taken actions to fill 1051 vacancies including the main operational level posts such as the Managers/ Engineer (Mechanical), Engineer (Electrical), Engineer (Civil) , Middle Level Technical (ML- T) Clerical and Allied Categories, Other Skilled Grade etc. even up to the end of the year under review. | Due to the following reasons the vacancies were not filled. 1. Some of the works in the NWSDB were automated. 2. Employees being hired under the man power contracts 3. Due to the injunction orders some of the vacancies could not be filled 4. As a cost control mechanism only the essential vacancies are being filled | Adequate staff should be recruited. |
| ii. Action had not been taken to obtain the approval for Scheme of Recruitment and Promotions from the Department of Management services, as specified in the Management Services Department's Circular No 30 dated 22 September 2006. | No comments had been given. | Actions need to be taken to get the approval for SOR from Department of Management Services. |

iii. According to the information furnished by the Board to the audit, the Board had released 137 various categories staff to the foreign funded water supply and sewerage projects from 20 December 2012 to 31 December 2018. Salaries and other allowances paid by the Board had been reimbursed by those Projects to the Board. Three (03) Deputy General Managers, fifteen(15) Assistant General Managers, thirty one(31) Chief Engineers, thirty eight(38) Engineers, fourty (40) Engineering assistant and Sociologist were among them.

The Management Services Department has taken to avoid given the approval for appointing one the employees including person for more than one project to the foreign funded and that affect to their Sewerage projects. duties in permanent Accordingly the positions and employees could be performance of the release to the above projects within the projects. approved cadre.

iv Total cost per employee for the past five years are as follows.

This cost also increases accordingly the increase of the inflation. Action need to be taken to control the staff cost.

| Year | Total | | |
|------|---------------------|--------------------------------------|------------------------------------|
| | No. Of Empl yees | Total Employee Cost Rs.Million | Cost per employee Rs.Million |
| 2014 | 10483 | 7,666.74 | 0.73 |
| 2015 | 10245 | 10,684.59 | 1.04 |
| 2016 | 10352 | 11,412.87 | 1.10 |
| 2017 | 10338 | 11,575.10 | 1.12 |
| 2018 | 10022 | 12,863.07 | 1.28 |

Accordingly it was observed that cost per employee had been increased by 75 per cent during the past four year period.

v. According to the audit test check carried out, it was observed that no any disciplinary actions had been taken against two employees recruited as Engineering Assistants who were attached to Kandana Water Treatment Plant and Kolonnawa Officer In charge Office respectively and submitted forged educational certificates when joining to the service.

Charge sheets have been issued to such employees and disciplinary actions are being carried out accordingly. Action should be taken to expedite the disciplinary actions.

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| <p>vi. An inappropriate marking scheme had been followed in recruiting internal civil engineer (i) during the year 2017. As a result,</p> <p>(a) Damages had been caused to seniority level.</p> <p>(b) Offering marks for qualifications not mentioned in the marking scheme.</p> <p>(c) Mathematical errors in computing marks.</p> <p>However no actions had been taken to rectify the matters.</p> | <p>The corrections were done accordingly and were submitted for the approval from the Board of Directors.</p> | <p>Actions should be taken to review the existing marking schemes for recruitment and promotions.</p> |
| <p>viii. An employee who joined as a meter reader on casual basis on 04 November 2009 and who were attached to Matale Water Supply Project, had submitted forged certificates when joining to the service and committed several offences during his period of service. However, his service was suspended after 9 years without recovering losses and damages made to the board.</p> | <p>Dispensary action was taken to dismiss him from the service.</p> | <p>Action should be taken to expedite the disciplinary actions.</p> |

3.13 Management of Vehicle fleet

| Audit Issue | Management Comment | Recommendation |
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| <p>Ten (10) motor vehicles were released to the Line Ministry during January to 31 December 2018 and incurred Rs.699,087 for repairs, license and insurance of those vehicles. However, secretary to the City planning and Water supply had informed me that only three vehicles bearing numbers, PA -8942, PC -5865, KG-0475 had only received to the Ministry.</p> | <p>No comments had been given.</p> | <p>It is required to follow the provisions in the Public Enterprises Circular No. PED/12 of 02 June 2003 regarding releasing of resources to other organizations.</p> |

4. Accountability and Good Governance

4.1 Corporate Plan

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>i. A Corporate Plan covering period 2016-2020 had been prepared. However, weaknesses within the business and opportunities and threats in the external environment of business had not been properly evaluated before preparing it.</p> | <p>SWOT analysis was carried out before preparing the Corporate Plan 2016 – 2020. Aspects on Finance, SWOT analysis and a review of operational results of previous period (2011 – 2014) are mentioned in Page No.5 of Corporate Plan booklet. However strengths and weakness has been intentionally not stated in the Corporate Plan as it was considered not appropriate to divulge of these information in a public document which is likely to be seen by competitors.</p> | <p>Necessary actions to include complete SWOT analysis in the Corporate Plan.</p> |
| <p>ii. No effective effort had been taken in order to reduce Non-revenue water in city of Colombo which remained as 41.65 per cent at the end of the year under review. Further, the attention of the board for reducing the Non-revenue water in the areas other than the City of Colombo especially in Gampaha, Kaluthara, Kurunegala, Anuradhapura, Matara, Bandarawela & Monaragala was also inadequate. Hence targets included in the Corporate Plan were also not realistic.</p> | <p>Colombo City consists of old cast iron and ductile iron pipes and they need to be replaced to reduce the NRW. Two (2) major projects are now being implemented in the Colombo City replacing these old pipes. Due to funding constraints the commencements of the pipe replacement contract packages were delayed. All four (4) contract packages are in progress at present. These contract packages are scheduled for completion between the periods 2019 to 2021. At the completion of these projects the NRW in Colombo City is expected to reach 18.0 per cent and 20.0 per cent island wide in 2021.</p> <p>The NRW activities in RSC's are continued from the budget allocations provided to each region from the annual operational budget of NWSDB. Since the water tariff has</p> | <p>Necessary actions should be taken to achieve, the targets set out in the Corporate plan.</p> |

not being revised since 2012, the O&M budget is limited. As a result, the fund allocation for NRW reduction in regions also has not been as planned which adversely affects the achievement of targets in the districts mentioned in the audit report.

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| <p>iii. It was observed that targets set in corporate plan for the year 2016 – 2020 for reducing Non-revenue water in western central, Uva, Central, North Western, North Central & Matara regions are not realistic, when comparing present Non-revenue water percentages of those Districts.</p> | <p>Short term measures to reduce NRW in RSCs are depended on Budget Allocation for the RSCs. As stated the allocations have been limited. As a result the achievements in present NRW% of these districts were less.</p> | <p>Necessary actions need to be taken to achieve, the targets set out in the Corporate plan.</p> |
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4.2 Annual Action Plan

| Audit Issue | Management Comment | Recommendation |
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| <p>i. Annual action plan for the year 2018 had not been approved by the board even by 24 July 2018 and the annual budget estimates, annual procurement plan, human resources development plan, plan for loan repayment and internal audit plan had not been included in the Action Plan as per the Public Finance Circular No.01/2014 of 17 February 2014.</p> | <p>2018 Annual Action Plan was approved by the Secretary of the Ministry of City Planning and Water Supply on 09.01.2018. Board approval for the Capital Budget Action Plan was received on 17.01.2018. Board approval for the 2018 Corporate Action Plan was received in March 2018.</p> <p>Summary of Internal Audit Plan and summary of Human Resource Development Plan (HRDP) are included in the approved Corporate Action Plan (CAP). Detailed Audit plan has been approved by the Audit and Management Committee . The detailed HRDP has been approved by the General Manager subsequent to a detailed need assessment . Annual Budget Estimates was approved by the Board of Directors on 17.01.2018 and Annual Procurement Plan was approved by the Secretary Ministry of City Planning and Water Supply on 04.01.2018.</p> | <p>Should adhere to the provisions in the Public Finance Circular No.01/2014 of 17 February 2014.</p> |

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| ii. | Funds allocated for each activity, commencement and completion date of each activity, expected quarterly physical and finance progress had not been included in the Action Plan. | Allocation for the year under review for each activity, commencement and completion of each activity, expected quarterly physical and financial progress are included in the 2018 Capital Budget Action Plan. | Actions need to be taken to include funds allocation, commencement date, completion date of each activity, quarterly physical and finance progress in the Annual Action Plan. |
| iii. | As per action plan, it was scheduled to commence five large scale water supply projects and three large scale sewerage projects during the year 2018. However, it had not been commenced even by 31 March 2019. | Due to Procurement delays the mentioned Water Supply and Sewerage Projects could not be commenced as planned. | Necessary actions need to be taken to achieve, the targets set out in the Action plan. |
| iv. | As per the action plan it was expected to increase total piped water supply coverage and sewerage coverage up to 54.9 percent and 2.7 percent out of total population at the end of the year under review. However, the actual coverage was only 50.5 per cent and 2.06 per cent respectively. Further as per the Corporate Plan prepared for 2016-2020 it is expected to increase total piped borne coverage up to 60 percent at the end of | <p>Piped borne connected coverage target of 2018 could not be met due to:</p> <ul style="list-style-type: none"> (i) Delays in procurement which is carried out separate of NWSDB's purview. (ii) Change of Scope of work during implementation. (iii) Lack of budget allocation for projects at planning stage. (iv) Protests during various phases of project cycle. (v) Delays/ not availability of budget allocation. (vi) Insufficient funds for Augmentation and Rehabilitation of existing Schemes. (vii) O&M budget was restricted by Board as a result the rehabilitation budget was restricted. (viii) Due to environmental condition, the source was restricted to abstract. | Necessary actions need to be taken to achieve, the targets set out in the Action plan. |

the year 2020. However when considering annual growth rate of 1.4 percent in new connections given during past few years, the possibility in achieving the said target is in doubt.

4.3 Internal Audit

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
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| i. Eleven (11) vacancies are existed in the Internal Audit Section including an Assistant General Manager, five (5) chief internal auditors and an engineer. | Three Internal Auditors have been appointed in the last year. Five Chief Internal Auditors have been appointed on 14/02/2019 and it could not be executed due to an ongoing legal matter. The Assistant General Manager position could only be filled after obtaining the approval for the SOR. | Adequate internal audit staff need to be recruited. |
| ii. Large number of water supply and sanitation services projects which are using local and foreign funds are carrying out by the Board. However, adequate number of staff had not attached to the technical audit section of the Board. | According to the present approved cadre of Technical Audit Section, the following Positions had been appointed. Chief Engineer (Internal Audit)-01 Engineer -02 Engineering Assistants-05 The existing staff except an Engineer of the Technical Audit Section are been utilized according to the Annual Audit Plan – 2019 | Adequate number of technical audit staff need to be recruited to the technical audit section. |
| iii. No any internal auditors had been appointed for Development Projects funded by foreign financing full time or part time basis as per the requirement of Management Audit Circular No.1/2017 of 15 February 2017. Further no any provisions had been followed regarding internal audit of such projects as per the | According to the Management Audit Department circular No: 02/2016 dated 10/06/2016, NWS&DB has requested approval from the Management Services Department to recruit Internal Auditors for foreign funded projects. The Management Services Department has not given the approval for the above to date. | Management need to adhere to the Management Audit Circulars. |

above mentioned circular such as preparing and obtaining Ministry approval for audit plans, submitting the same to Department of Management Audit before the financial year and submitting audit reports to Line Ministry.

4.4 Budgetary Control

| Audit Issue | Management Comment | Recommendation |
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| ----- | ----- | ----- |
| Significant variances ranging from 3 to 36 per cent was observed between the budgeted and actual income and expenditure of the board for the year under review. That indicates the budget had not been made use as an effective instrument of management control. | The total cost control of each section of the NWSDB is based on the effective budgetary mechanism followed by the NWSDB. Therefore the predicted loss of Rs.2.7Billion has been reduced to Rs.0.56Billon. | Actions need to be taken to narrow down variances. |

4.5 Sustainable Development Goals

| Audit Issue | Management Comment | Recommendation |
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| Upon being aware of the Agenda -2030 on Sustainable Development Goals of the United Nations Organization, board had identified the sustainable development goals such as achieve universal and equitable access to safe and affordable drinking water for all and achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situation in 2030. However no actions had been taken to identify | While all day to day activities of NWS&DB are naturally oriented towards the realization of SDG Goal 6 “Ensure availability and Sustainable Management of Water and Sanitation for all”, NWSDB actively engaged in the National level activities for implementing SDGs in Sri Lanka. Transforming from the Millennium Development Goals to SDGs, the NWSDB under the guidance of the Ministry of City Planning, Water Supply and Higher Education was engaged in developing national indicators and setting targets in order to monitor and report the achievements related to Goal 6.1; achieve universal and equitable access to safe and affordable drinking water for all by 2030 and Goal 6.2; achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying | Upon being aware of the Agenda -2030 on Sustainable Development Goals of the United Nations Organization, board had identified the sustainable development goals such as achieve universal and equitable access to safe and affordable drinking water for all and achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and |

the other goals coming under the scope thereof, targets, statistical data and milestones in achieving the targets relating thereto as well as evaluating the performance. Further, no any internal circulars or guidelines had been issued by the board in respect of implementation of Sustainable Development Goals even by the end of year 2018.

In additions to that no methodology had been followed for disaggregating data representing all parties in respect of indices and verification of the accuracy of data and also other public institutions related with the Sustainable Development Goals relevant to the board had not been identified even by 31st March 2019.

special attention to the needs of women and girls and those in vulnerable situations by 2030 . NWSDB also held several discussions under the guidance of the Ministry, with the Department of Census & Statistics regarding development of the questionnaire for data collection for this purpose, during the year 2018.

The SDGs activities are conducted joining by the Ministry of City Planning, Water Supply & Higher Education and NWSDB. NWSDB's existing Corporate Action Plans are oriented towards the relevant Sustainable Development Goals. Also, a committee appointed by the Secretary, Ministry of City Planning, Water Supply and Higher Education is working on establishing the baseline and targets. Goals and targets have been recommended by the special committee appointed by the Ministry of City Planning, Water Supply and Higher Education. This is to be validated by the Stakeholders. Data collection questioner too is being finalized by the committee. Thereafter it will be discussed with the National Census Department and WASH group, Ministry of City Planning, Water Supply and Higher Education, Ministry of Local Government for finalization. Once this is completed and agreed by the Stakeholders, circulars will be issued by the Ministry, if necessary. Following awareness and consultative workshops were held/ attended by the NWSDB officials.

- i. National Multi-Stakeholder Consultative Workshop for Sri Lanka Voluntary National Review – Auditorium of Sri Lanka Foundation Institute
- ii. Monitoring SDG 6 – Stakeholder Consultation Workshop – Ministry of City Planning and Water Supply - Auditorium of Ministry of City Planning and Water Supply

girls and those in vulnerable situation in 2030. However no actions had been taken to identify the other goals coming under the scope thereof, targets, statistical data and milestones in achieving the targets relating thereto as well as evaluating the performance. Further, no any internal circulars or guidelines had been issued by the board in respect of implementation of Sustainable Development Goals even by the end of year 2018.

In additions to that no methodology had been followed for disaggregating data representing all parties in respect of indices and verification of the accuracy of data and also other public institutions related with the Sustainable Development Goals relevant to the board had not been identified even by 31st March 2019.

- iii. Water Quality Testing Required for Household survey to be conducted by the Department of Census & Statistics – SDG 6 Target 6.1 - Auditorium of Ministry of City Planning and Water Supply
- iv. SDG 6 Indicator Committee meeting - Ministry of City Planning and Water Supply
- v. Strengthening Water Supply & Sanitation sector Readiness for SDGs meeting with Key Stakeholders - Ministry of City Planning and Water Supply.