

Head 433 – State Ministry of Rural & Divisional Drinking Water Supply Projects Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Rural & Divisional Drinking Water Supply Projects Development for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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. The summary report containing my comments and observations on the financial statements of the State Ministry was issued to the Chief Accounting Officer on 24 May 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the State Ministry was issued to the Chief Accounting Officer on 23 May 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Rural & Divisional Drinking Water Supply Projects Development as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibility of the Chief Accounting Officer for the Financial Statements

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the State Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's summary 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, and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- 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 State Ministry's internal control.
- Evaluate the 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.
- 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.

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I make the following statement in accordance with Section 6 (1) (d) of National Audit Act, No. 19 of 2018.

- (a) Although the Director General of Public Accounts letter No. SA/MAA/02/01/01 dated January 12, 2022 has revised the “basis of reporting” in the financial statements, the financial statements prepared by the Ministry had only revised the last year's figures without revealing it.
- (b) The recommendations I had made regarding the financial statements related to the previous year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of Cash Flows

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although Rs.60,462,651 was identified for personnel and operating expenses under the cash flow spent for operational activities in the Ministry's cash flow statement, according to the information submitted to the audit, it was Rs.518,315,186 and the cash flow spent on operational activities was understated by Rs.457,852,534.	Personnel development expenses and project improvement or expansion expenses are considered as investments.	Financial statements should be prepared according to Public Accounts Guide No. 06 dated November 26, 2021 No. 2021/03 of the Director General of Public Accounts.
(b) Although the recovery of advances under cash flows generated from operating activities was recognized as Rs.270,114, According to the information submitted to the audit, a difference of Rs.193,450 was observed from the advance recovery of Rs.463,564 in the year under review.	The settlement of advances made under the vote 433-011 is Rs.270,114 and the appropriations made under the vote 433-012 is Rs.193,450.	-Do-

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| (c) | Although Rs.472,365 had been identified as advance payments under the cash flow spent on operational activities, according to the information submitted to the audit, it was Rs.665,815 and the value of advance payments had been overstated by Rs.193,450. | Advance payments made under 433-011 is Rs.472,365 and Rs.193,450 is appropriations under 433-012. | -Do- |
| (d) | It had been shown in the statement of the cash flows that Rs.461,002,147 had been incurred for the construction or purchase of physical assets and acquisition of other investments. However, the value of physical assets purchased by the Ministry during the year under review was only Rs.3,149,612, hence a difference of Rs.457,852,535 was observed. | Although the value shown in the analysis is related to the acquisition of assets, the value shown in terms of cash flow includes not only the construction or purchase of physical assets but also the acquisition of other investments. | -Do- |

1.6.2 Non – maintenance of Registers and Books

Some of the following documents were not maintained by the Ministry and it was observed during the sample audits that some of the documents were not maintained regularly and up-to-date.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Inventory register		
Inventory register had not been updated and maintained as per Financial Regulation 454(1).	The inventory register has been updated by now.	Inventory register should be updated and maintained in terms of Financial Regulation 454(1).
(b) Vehicle accident register		
The accident register was not updated and maintained.	It has been updated.	Vehicle accident register should be updated

(c) **Vehicle log register**

Vehicle log books were not maintained as required by Finance Regulation 1645 (a) including details of vehicles, quantity of fuel burned, vehicle license details, custody of vehicle, details of transfer and details related to vehicle maintenance and repair etc.

The vehicles owned by the Ministry of Water Supply are provided for the use of the Ministry only. From the given date, the relevant facts are recorded in the log book.

Vehicle log records should be updated and maintained in terms of Financial Regulation 1645 (a).

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The net provision of Rs. 115,000 under the two recurrent expenditure subjects 433-1-2-0-1403 and 433-1-2-0-1703 had been entirely saved.	Since this ministry is located in the same building as the water supply ministry, these provisions have been left due to the non-conduct of the expected programs due to the covid 19 epidemic.	Expenditure estimates should be prepared accurately in terms of the Financial Regulations 50.
(b) Provisions of Rs.1,975,000 for 05 recurrent expenditure subjects had been completely transferred to other expenditure subjects through financial regulation 66.	Due to non-submission of requests for uniform allowances, non-filling of vacancies for office assistants, restriction of machinery utilization due to on-going Covid pandemic, etc., expenditure was not incurred as expected.	-Do-
(c) Out of the estimated Provisions of Rs. 14.2 million for 13 recurrent expenditure subjects, Provisions ranging from 30 percent to 97 percent were transferred to other expenditure subjects through FR 66.	As the expected expenditure did not arise, it was transferred to other expenditure subjects as per the requirement of the Ministry.	-Do-

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| (d) | More than 50 percent of the net provisions of Rs.305,000 received under the two recurrent expenditure subjects had been saved. | Since this ministry is located in the building of the Ministry of Water Supply and due to non-application of property loans, these provisions have been saved. | -Do- |
| (e) | The net provisions of Rs.1,150,000 for 3 subjects of capital expenditure had been completely saved. | No maintenance costs due to reduced use of machines and equipment due to the Covid-19 pandemic, The non-operation of the SACOSAN office has resulted in the remaining of these provisions. | -Do- |
| (f) | Out of the provisions of Rs.1,331.4 million for 11 capital expenditure subjects, provisions ranging from 20 percent to 77 percent had been saved. | Provisions have been saved due to non-conduct of training programs as expected, non-availability of funds to settle bills, shutdown of the country due to the Covid epidemic, shortage of construction materials in the market, etc. | -Do- |

2.2 Irregular Transactions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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Due to the fact that the vehicle provided by the Ministry for the official activities of the Ministry of State met with an accident, a vehicle was obtained from a private company on a rental basis from May 12, 2021 to September 14, 2021 at a cost of Rs.2,836,523. Due to this expenditure, the subject of 433-01-01-1401 was exceeded by 218.64 percent. Furthermore, although the said rental vehicle has been contracted with the private company only from 12th May 2021 to 10th June 2021, 1,665,598 had been paid for a period of 03 months without an agreement till 14 September 2021.	I present the extended agreement. Payments have been made after confirming and recommending the bills by the Private Secretary of the Honourable Minister of State.	Payment should be made in accordance with Financial Regulation 135.

Furthermore, It was observed that the above amount of Rs.2,836,523 was paid for 17,986 km based only on the bills submitted by the vehicle supplier without daily verification of the distance driven by the milometer during the monthly rental payment for the vehicle, which is contrary to regulations 138 and 139 of the Government's Financial Regulations Code.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules, and Regulations	Non-compliance	Comments of the Chief Accounting Officer	Recommendation
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(a) Subsection 16.2 of the National Audit Act No. 19 of 2018	The draft Annual Performance Report was not submitted to the Auditor General along with the Ministry's annual financial statements.	Will be dealt with in the future.	Should be act accordance with the provisions of the National Audit Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation No. 104	Regarding the vehicle No. KK-5237 which was involved in an accident on April 4, 2021, the final report was not submitted on March 31, 2022, and the amount of Rs.135,085 incurred by the Ministry was not recovered from the responsible parties.	Inspection recommendations have been issued regarding this vehicle and further work is underway.	Should be act accordance with the Financial regulations.

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| (ii) | Financial Regulation No. 371(c) | Sub imprests of Rs. 224,020 which had been issued for various activities in 10 occasions during January to September 2021 had not been settled immediately after the respective activity. | The officers were instructed to ensure that there are no such delays in the future. | -Do- |
| (c) | Section 3.1 of Public Administration Circular No.30/2016 dated 29 December 2016 | No fuel combustion tests had been carried out on Ministry vehicles. | Necessary arrangements have been made to conduct the fuel combustion test of the vehicles for the pool. | Should be act accordance with Public Administration Circulars. |
| (d) | Section 3.1.6 of the Public Finance Circular No. 05/2016 dated 31 March 2016 | The annual board of survey for the year 2021 should have been conducted and submitted reports to the Auditor General prior to 17 March 2021. However, those reports had not been submitted even by 31 March 2021. | I would like to mention that the board of survey related to the year 2021 has been done on the scheduled date. | Should be act accordance with the Public Finance Circular |

3. Operating Review

3.1 Planning

Audit Observation

Comments of the Chief Accounting Officer

Recommendation

Even though an action plan for the year 2021 had been prepared for the Ministry in terms of the Public Finance Circular No. 2014/01 dated 17 February 2014, It was observed that The updated organizational structure for the year under review, details of approved and existing cadre, imprest Requirement Plan for annual activities, Annual Procurement Plan for planned major development programmes and Internal Audit Plan should have been included in terms of paragraph 3 of that circular were not included in it.

I would like to inform you that from the year 2023, the annual action plan will be prepared according to the state financial circular.

An action plan should be prepared in accordance with the provisions of the Public Finance Circular.

3.2 Non-achievement of expected Output Level

 The following observations are made.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) During the year under review, the Ministry had planned to implement one project under the Ministry, four projects under the National Community Water Supply Department, three projects under the National Water Supply and Drainage Board, and two projects through the District Secretariats by allocating a provision of Rs.775 million. Among them, no physical progress had been made in 10 activities related to the Madupalli Water Supply Scheme and the Rural Water Supply and Sanitation Improvement Project for which Rs.61.21 million had been allocated.	Due to inclusion of Madupalli water supply project under Water for All programme, its provisions have been saved.	Action should be taken to reach the relevant project progress as planned at the beginning of the year.
(b) Although 20 activities related to 03 projects which implemented during the year under review, namely Watershed Conservation Program, Rural Water Supply and Sanitation Improvement Project, and Kidney Disease Prevention Program which had been allocated Rs.191.93 million were planned to be completed during the year, they remained unfinished at the end of the year under review.	It was not possible to make the expected progress in other projects due to the on going covid epidemic, lack of construction materials, bad weather and inability to supply water pipes.	-Do-

3.3 Non-achievement of expected Outcome

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>Although the primary objective of the rain water tank construction program implemented by the National Community Water Supply Department based on the Ministry's provisions is to provide safe drinking water to the people in rural and remote areas that cannot be supplied with water by the National Water Supply and Drainage Board's water pipe system, the beneficiaries were not selected on a formal basis. Due to this, it was observed during the physical inspection of a rain water tank built in Puttalam district that it was not given to the needy people and formal measures were not taken to make the water collected in the tanks suitable for drinking.</p>	<p>It is the responsibility of the development officers attached to the department and the officers in charge of the site to select the relevant project or beneficiaries according to the criteria. Accordingly, the beneficiaries documents have been prepared. Development officers have taken the initiative and set up a simple filter system for systems that are not regularly maintained, I made a note to deal with the formalization of it.</p>	<p>Actions should be taken to identify the intended beneficiaries on a systematic basis and ensure the safety of drinking water.</p>

3.4 Delays in the Execution of Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>The Tissamaharama Water Supply Project, the Trincomalee Water Supply Project, the project to provide water facilities for the resettlement villages in Kegalle District and the Andaragasaya Water Supply Scheme, which were started in 2016 and 2017 and are being carried out by the National Water Supply and Drainage Board under the government ministry allocations. A significant delay in the completion of the projects was observed and the projects failed to be completed even at the end of the year under review.</p>	<p>No comments were made.</p>	<p>Actions should be taken to complete the projects as planned and direct supervision should be carried out by the Ministry.</p>

3.5 Annual Performance Report

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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According to the Public Finance Circular No. 402 dated September 12, 2002, the State Ministry must submit the annual performance report within 150 days of the end of the financial year and according to the Treasury Secretary's letter No. PFD/RED/REG/02/CC/01/2021 dated May 12, 2021, the performance report for the year 2020 was to be tabled in Parliament before June 30, 2021. Nevertheless, it was observed during the audit that the performance report of the Ministry of State for the year 2020 was tabled in Parliament on 16 July 2021.	This was prepared and translated in all three languages in view of the on-going Corona epidemic and Presented to Parliament on 16 July 2021.	Annual performance reports should be tabled in the Parliament according to the Public Finance Circulars and the recommendations of the Treasury Secretary.

3.6 Procurements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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Although the registration of suppliers in accordance with paragraph 3.4.3 (a) (b) (c) and (d) of the Government Procurement Guidelines, the purchase should be limited to the relevant registered suppliers and the list of suppliers should be updated at least once a year. The State Ministry had not taken steps to register the suppliers during the year under review.	It was not possible to register the suppliers in 2021, but the suppliers have been registered for the year 2022.	Should be act in accordance with the government procurement guidelines.

3.7 Assets Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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According to the information submitted to the audit by the Ministry of State, 12 vehicles owned by other government agencies were used by the Ministry during the year under review.	This ministry does not have any vehicles and only vehicles provided by the Ministry of Water Supply were used.	When using vehicles owned by other government agencies, arrangements should be made to take them over formally.

3.8 Uneconomic Transactions

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Due to the absence of a pre-planned program by the State Ministry Media Unit and Due to the inability to manage the existing vehicles due to requests made from time to time, the Ministry had incurred an expenditure of Rs.216,893 during the year under review for obtaining vehicles on rental basis without formal procurement process for the functions of the media unit.	In the absence of reserve vehicles in the ministry, a vehicle was obtained on rental basis with the approval of the secretary with a procurement process and the private and media secretaries have been informed to act according to a full plan in this regard.	Arrangements should be made to obtain rental vehicles through a formal and transparent procurement process.
(b) During the provision of composite allowances and overtime allowances to the staff officers of the Ministry, Rs.351,848 were paid as overtime and composite allowances for the vouchers submitted that the same vehicle was used in the same period.	The vouchers presented were correct and as the vehicle numbers were wrongly recorded in the other vouchers, they were corrected after verification.	Ensuring approval of expenditure and making payments only after verifying their accuracy.

3.9 Management Weaknesses

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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Although the money collected from the employees and the institution on behalf of the public Employees' provident funds of the state ministerial staff should be sent to the concerned institution without delay, There were significant delays in the remittance of public Employees' provident funds of Rs.1,230,265 for the periods August to December 2020 and January to June 2021.	These were due to the prevailing Covid situation and at present checks are being forwarded on behalf of the public Employees' Provident Fund along with salary reduction.	Arrangements should be made to send the money collected from the employees and the institution to the relevant institution immediately on behalf of the public Employees' provident funds.

4. Achievement of Sustainable Development Goals

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) The Ministry had identified 05 objectives for sustainable development and 09 key performance indicators had been identified to achieve these objectives. However, only one of the identified performance indicators had identified targets and recorded the related progress.	Since the Ministry of State was officially launched after September 07, 2020, it was not possible to provide specific targets for the programs implemented throughout the year.	Sustainable development goals should be identified and relevant measures should be taken to achieve them.
(b) No workshops were held during the year under review on achieving the Sustainable Development Goals.	Since the posting of ministry officers was done from 16th September 2020 and due to the covid epidemic in the country at that time, the workshops could not be conducted.	-Do-

- (c) According to Ministry of Sustainable Development and Wildlife Circular No. MSDW/8/65 dated April 27, 2018, two officers had not been nominated for coordination activities to achieve sustainable development objectives even by the end of the year under review.
- From the year 2021, it was planned to carry out sustainable development objectives and related tasks.
- The circular of the Ministry of Sustainable Development and Wildlife should be followed.

5. Good Governance

5.1 Internal Audit

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>In terms of Section 40(1) of the National Audit Act No. 19 of 2018 and In terms of Regulation No. 128 (a, b) and 133 of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka, in order to implement a strong internal control system in the performance of the duties and responsibilities of the Chief Accounting Officer, an internal audit department should be established and audit and management committee meetings should be held properly as per Section 41 of the National Audit Act. However, even though an internal auditor position was approved in the approved staff of the Ministry of State, no efforts were made to establish and actively maintain an internal audit unit to maintain the performance and effectiveness of the ministry at a high level by the end of the year under review.</p>	<p>A suitable staff officer for the post of Internal Auditor has been requested to establish an Internal Audit Division but has not been received so far. A Development Officer has been assigned.</p>	<p>The provisions of the National Audit Act and the Financial Regulations Code should be followed.</p>

6. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) It was observed that the percentage of vacancies takes a high range from 50 percent to 100 percent of the approved number of employees under each category of employees. It accounted as high as 64 percent of the total approved cadre.	Applications have been made on several occasions from the Cabinet Ministry, the Ministry of Public Services, Provincial Councils and Local Government and the Multipurpose Development Task Force Department to fill vacancies. But it has not been possible to get officers for those posts.	Arrangements should be made to promptly fill up the vacancies or amend the approved staff as per the requirement of the Ministry.
(b) Although the Department of Management Services had approved 07 officers for senior level positions such as Director Engineer, Accountant, Internal Auditor, Assistant Secretary and Engineer, these officers had not been recruited at the end of the year under review. Hence, it cannot be ruled out in the audit that it is a factor that adversely affects the performance of the Ministry.	Although written requests were made to fill up the vacancies, they were not completed.	-do-
(c) When two driver positions were vacant in the approved staff of the Ministry, three employees of the Water Supply Board had been employed for the duties of the driver position on behalf of three senior officers of the Ministry and the Board had incurred an expenditure of Rs.4,314,146 for them as salaries, allowances and overtime for the year 2021. Furthermore, it was observed that one person who had been recruited in this way was not recruited as a driver but as a labourer in the service of the board.	Officials provided with vehicles from the Ministry of Water Supply are currently performing the relevant duties.	The human resources obtained from other parties should be released back to the relevant institutions.