

National Water Supply and Drainage Board - 2022

1. Financial Statements

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 2022 comprising the statement of financial position as at 31 December 2022 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2022, 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 National Water Supply and Drainage 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 the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
i. Contrary to paragraph 9 of the Sri Lanka accounting standard on Inventories (LKAS 02) and note no.3.2.1 of the accounting policy of the Board, stocks with an aggregate value of Rs.647,357,338 which had not moved over three years period had been recorded at its cost without assessing their net realizable values.	In compliance with para 6 of LKAS 2, it is impracticable to calculate Net realizable value of the inventories to be treated as per para 9 of said standard. Further, as per para 32 of such standard, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Further, owing to the nature of the business, substantial amount of inventories are retained to be catered to sudden demand arising out in unforeseen circumstance including pipe burst etc. Depending on the criteria which taken for decide whether the items are nonmoving or not, it cannot say these all items have recorded as nonmoving over continuous three years period. Therefore it's no needs to assess the net realizable value for those nonmoving stocks. Hence, request to remove this query.	Ensure that the recognition of the value of inventories is complied with Sri Lanka accounting standard 02 (LKAS 02) and accounting policy of the Board. If it is impractical to comply as your comments, can change the accounting policy with proper approval.
ii. The balances shown in a saving account amounting to Rs.1,500,083 and Escrow savings account amounting to Rs.18,887.57 million had been categorized under financial assets and investments respectively in the Statement of financial position instead of recognizing those balances as cash	The Escrow savings account is created to take the disbursements and also used to pay the disbursement in dollar terms. Hence the money in the Escrow savings account is not freely available for the borrower (NWSDB) to be treated as cash and cash equivalent. The deposit made in the Savings account	Those two accounts are readily available for required transactions. Therefore, It is ensured to comply with Sri Lanka accounting standard

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| <p>and cash equivalents in contrary to Paragraph 07 of the Sri Lanka accounting standard on Statement of Cash flows (LKAS 07).</p> | <p>in the Bank of Ceylon is not made with an intention of using it in the short run.</p> | <p>07-(LKAS 07) when categorizing assets as Current and Non – Current.</p> |
| <p>iii. Total of Rs. 519,671,859 Prior year adjustments had been done for assets and depreciation in the year under review due to changing the classification of opening balances. Further, it was observed that the Board has been practicing that method since 2012 without implementing proper internal control over Assets.</p> | <p>As per the LKAS 8, it is a regulatory requirement to correct the prior period errors.
Due to the complexity of the transactions there will be adjustments to be made after the year. Hence the NWSDB has complied with the said requirements.</p> | <p>Introduce internal controls to minimize the prior year adjustments since those adjustments have made significant differences to the financial statements every year.</p> |
| <p>iv. Contrary to the provisions in the Sri Lanka accounting standard on Accounting for Government Grants and Disclosure of Government Assistance (LKAS 20), In sample audit, it was revealed that the foreign grant balances aggregating to Rs. 10,445,367,769 in respect of 28 Projects which remained without being amortized over 15 years and a sum of Rs. 3,258,974,255 relating to 05 projects which remained without being amortized over 12 years respectively in the financial statements as at 31 December 2022. In the year under review, 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.</p> | <p>Grants related to non-depreciated asset including lands were remained without being depreciated over the period. Also the life period of buildings prevailed are over 50 years. The respective grants are depreciated until such period.
The grants are received in bulk but the amortization take place according to the depreciation rate applicable to the individual assets.</p> | <p>Action should be taken to amortize foreign grants received in accordance with the provisions in respective Accounting Standards and detail schedule including grant amortization by identifying specific assets relating to that grant should be submitted to audit to verify the accuracy of amortization.</p> |
| <p>v. The fully depreciated fixed assets in relation to 14 categories, amounting to Rs. 2.93 billion were being continuously utilized by the Board, had not been reviewed annually to revise the estimated useful lifetime as per the paragraph 51 of the Sri Lanka accounting standard on Property, Plant & Equipment (LKAS 16).</p> | <p>As per the paragraph 51 of LKAS 16, it is impracticable to value the asset base of the NWSDB as there is an immense asset base scattered around the country and substantial amount of assets are specific to the NWSDB. Therefore, it is difficult to get the services of a suitable valuation officer to reassess the useful economic life of the assets.</p> | <p>Ensure that comply with requirements of Sri Lanka accounting standard LKAS 16.</p> |

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| vi. | Inventory items valued at Rs.27,669,420 received from the contractor of Ruhunupura Water Supply Scheme to Hambanthota Manager Office and stock items valued at Rs.51,615,532 received to the Akkareipattu Manager office had been recognized as foreign capital grants without recognizing as income received during the year 2021 as per the requirement of LKAS 20 - Sri Lanka accounting standard on Accounting for Government Grants and Disclosure of Government Assistance. | Rs.27,669,420.00 value of inventory received from Kolon Global contractor after Capitalized the Scheme and which is not included in Project scope accounted against grant Account. Further, this grant would be setting off when issue such items. | Ensure to comply with Sri Lanka accounting standard - LKAS 01 provisions when presenting financial statements. |
| vii. | Even though the Board had recognized building as investment property in separate note to the financial statements, it had not presented as separate line item in its financial position as per the requirement of paragraph 54 (b) of LKAS 01. Further, valuation model and income from Investment Property had not been disclosed as per the requirement of paragraph 75 (a) and (f) (i) of the LKAS 40. | The Building constructed by the Board which is currently occupied by the Ministry of Water Supply is judgmental as per para 14 of LKAS 40 to recognized as Investment Property. Hence as per the para 75 (C) of the above standard such adjustment in the Financial Statement is not required. | Ensure that comply with Sri Lanka accounting standards (LKAS 40) regarding recognition of Investment Property. |
| viii. | Contrary to paragraph 5.5 of the Sri Lanka Financial Reporting Standard on Financial Instruments (SLFRS 09), a provision of Rs.42,006,611 for impairment for sewerage debtors and other debtors had been done based on a fixed rate as at 31 December 2022 without identifying the expected credit losses. | This represents 4.3% of trade & other receivable balance and required provision has been made for so far on these balances. Hence, this treatment in expected credit loss method in SLFRS 9 would not make significant change to the balance. | Ensure that comply with Sri Lanka accounting standard – 09 (SLFRS – 09) regarding provision for impairment for debtors. |
| ix. | In terms of paragraph 118 of Sri Lanka accounting standard on Intangible Assets (LKAS 38), relevant disclosure requirements such as the gross carrying amount and any accumulated | The total intangible assets comprise 0.0029% of the total asset. Therefore it is not necessary to review it every year. Further as per the para 74 of LKAS 38, the NWSDB is applying the Cost model | Standard does not avoid the disclosure requirements even amount is insignificant Hence, ensure that |

amortization at the beginning and end of the period had not been made in the financial statements in relation to the intangible assets valued at Rs.27.73 million. Further, 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 paragraph 104 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38).

to account the intangible assets. Hence reviewing period of the amortization is not required.

comply with Sri Lanka Accounting Standard – 38 regarding disclosure requirements.

x. Building of Colombo south office which was acquired under the Lease agreement no.3702 dated 11 December 2009 amounting to Rs.151,503,750 had been classified as freehold land of the Board instead of identifying it as Leased hold assets as per the SLFRS 16 -Leases. Further, the Board had not revised the price mentioned in lease agreement with the Colombo Municipal Council since 10 December 2014 and continuously uses the land and building without rent payment.

Land in which established the building of the Colombo South Office and other NWSDB offices was acquired under the lease agreement no 3702 dated 11th December 2009 amounting to Rs.151, 503,750.00. This premise has correctly classified under the leasehold asset (ledger code 102) and not as the freehold land as stated in the query.

Even it has recorded in ledger account correctly, Presentation in financial statements should be corrected as lease hold property and amortize the initial payment within the lease period. Review the lease rental and pay the lease rental properly to avoid any legal issues.

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
<p>i. As per section 3.2.1 of accounting policies submitted with the financial statements, the balance of inventory at the end of the year under review had been valued at weighted average cost (WAC) method and Price deviations cannot be exist as a whole entity when applying WAC method in valuing the stocks. However, amount of Rs. 249,392,359 of abnormal price deviations had been deducted from the stock value as stock adjustments. Hence, accuracy of value of inventories in the financial statements cannot be verified in audit.</p>	<p>Until the inventory management system fully complete, the higher price variance which arise through the system, will correct through stock adjustment account.</p> <p>It is noted that island wide total price variation from the ledger and the stock verification has been recorded as around 1% of the total physically verified stock balance. It is expected that the price variance will be very minimum in future with the implementation of all stores in IMS and the other system developments.</p>	<p>Should comply with the accounting policies when preparing financial statements.</p>

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| <p>ii. As per section 3.2.1 of accounting policies submitted with the financial statements, a provision for obsolete and slow moving stocks should be made out of balance of inventory. However, as per the books of accounts provision for obsolete and unserviceable stocks amounting to Rs.236,958,510 had only been made without making any provision for slow moving stocks.</p> | <p>For inventory provision it is consider only obsolete and unserviceable items.</p> | <p>Should comply with the accounting policies submitted with the financial statements when preparing financial statements.</p> |
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1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>i. The Board had not made provisions for the amount of Rs.1,192,717,747 payable as container demurrages and line demurrages in relation to the Water for all Project as at 31 December 2022 for unreleased pipes and fittings. Therefore, Loss of the year had been understated by similar amount.</p>	<p>All information on contingent events were called from the respective parties and that information were reported. Out of the 734 containers many containers were cleared and the balance prevailing was 187 and this will also be cleared in the near future as Treasury has agreed to release funds for them under the Ministry fund allocation.</p>	<p>All contingent liabilities should be identified and be reported before financial statements are being authorized to issue as per the accounting standards requirement.</p>
<p>ii. Provision for financial cost of Rs.372,531,531 equivalent to USD 1,002,488 charged for Interim Payment Certificate suspension of the Gampaha, Aththanagalla and Minuwangoda Water Supply Project had not been made in the accounts as at 31 December 2022. Therefore, Loss for the year under review had been understated by Rs. 372,531,531.</p>	<p>Even though the contractor has computed this amount, NWSDB has not agreed to make payment or provision. The claim was reviewed by a committee and is under evaluation now.</p>	<p>All contingent liabilities should be identified and be reported before financial statements are being authorized to issue as per the accounting standards requirement.</p>
<p>iii. Metered sales income of the year under review had been understated by Rs. 9,081,345 due to set off the bad debt written off in three Regional support centers against the Metered sales income.</p>	<p>Board approval has been obtained.</p>	<p>Bad debts write off should be considered as selling expenses and should not write off against current income.</p>

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| iv. | Commitment charges of USD 35,357.08 equivalent to Rs.12,327,095 incurred at the end of the year in respect of Greater Colombo Water and waste water management Project –ii & iii had not been accounted in the books of accounts of the board. | As per the cabinet paper, this had been born by the treasury. Hence commitment fee had not been accounted in WIP. | As per the circular no.230/2013 dated 29 November 2013 and Accounting standard, Borrowing cost incurred during the construction period should be capitalized to the relevant Project. |
| v. | As compared with the confirmations received from banks in respect of accrued interest on loans of seventeen local and foreign funded projects, it was observed an under provision of Rs.1,633,371,877 and over provision of Rs.1,221,181,323 had been made. Therefore, the work in progress balance had been understated by Rs.412,190,554. | The bank has informed the amount of interest as at 30.12.2022 and this amount has been accrued at the end of the financial year. But actual interest for the bank confirmation is given for 31.12.2022. Therefore the difference could be occurred.

Accrued interests of the CDB and Exim loans were calculated using the estimated LIBOR rate and applied on actual disbursements. | Need to compare the balance confirmation received from Banks at the end of the year and if there is any adjustment, it should be incorporated to the financial statements. |
| vi. | A sum of Rs.3,100,107,155 out of 8,849,176,996 of advanced received for rechargeable work is remained over three years. Only information was received for the amount of Rs.263,218,934 from the requested amount of Rs.795,722,766 of rechargeable works. Out of the information received amount of Rs.118,356,032 in relation to the 8 completed works had not been transferred to the income account as at 31 December 2022. Therefore, loss had been overstated by Rs.118,356,032 during the year under review. | Completion certificates are in progress to capitalize and they will be completed in the year 2023. The rechargeable project period normally exceeds more than 3 years. | Prompt actions need to be taken to clear the advances received for completed rechargeable projects. |
| vii. | As per the information received, the cost of completed construction and Rehabilitation Projects amounting to Rs.75,510,930,776 had remained in the work-in- progress as at 31 December 2022 without being capitalized. | Completion certificates are in progress to capitalize and they will be completed in the year 2023. | Actions need to be taken to capitalize the value of completed projects to reflect the correct value of fixed assets in the Financial statements. |

- viii. Balance forward amount of Rs.33,795,903 of Economic Service Charge had been erroneously identified as income tax expense in the statement of comprehensive income of the year under review and income tax computation had not been prepared in order to recognize actual income tax expense for the year under review. NWSDB have excessive deductible tax losses brought forward from previous years. There is no available income tax liability to set off the ESC. Therefore, the ESC is an expense for the NWSDB and it has been recorded accordingly in the Statement of Comprehensive Income. Unclaimable ESC should be charged to the income statement as other expenses.
- ix. In relation to eight cost centers, fixed assets with an aggregate value of Rs.125,540,714 could not be verified and physically not existed and further, amount of Rs.991,976,449 valued assets in Regional support Centers could not be clearly identified as per the physical verification records. However, without taking actions as per the provisions in the financial regulations 102 to 105, a provision of Rs.36,364,018 had been made for depreciation during the year under review. Some stock represents auction able items which already send for auction and not exist in the stores premises at the stock verification period. A team will be appointed to re verify the physical existence and necessary actions will be taken according to the committee decision. Assets records should be kept clearly each and every store to verify the existence of the assets and necessary adjustments in the accounts should be done after following the financial regulations.

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| <p>x. Outstanding balances of assets and liabilities amounting to Rs.149,748,448 and Rs.51,287,805 remain since long period respectively which includes other debtors, advances, trade creditors, unclaimed salaries, etc.. These balances had been identified as non-operating assets and non-operating liabilities in the financial statements without being taken actions to identify the reasons for existence. Therefore, impact to the financial statements cannot be ascertained. Further, an unidentified prior year balance of Rs.235,123,315, stock balance of Rs.22,007,307, bank balances of Rs.8,343,056 and advances given to ministry of Rs.15,227,490 are remained in the above mentioned balance as non-operating assets.</p> | <p>Due to the manual system being computerized, these balances were rolling over from the year 1999. Various actions such as formulating special committees, services from accredited Audit Firms to clear the above were initiated. The results obtained by these actions were cleared by obtaining the Board Approval. In the year 2017, the balance which is not cleared was transferred to a separate account to clear in the future.</p> | <p>Continuous follow up action need to be taken by the management on this matter to clear non-operating assets and liability balances to get clear picture of the financial position.</p> |
| <p>xi. Actions had not been taken to settle land advance amount of Rs.8,422,646 paid to Divisional Secretary by Regional Service Center even though the respective land had been capitalized as at 31 December 2022. Therefore, assets had been understated by similar amount.</p> | <p>Acquisition of land takes more time as there are several government institutions involved. Therefore the acquisition of land will take further more time. Hence the settlement will clear when they are been acquired.</p> | <p>Land advances should be settled at the time of capitalization.</p> |
| <p>xii. An amount equivalent to Rs.107,302,970 incurred as default interest due to delay in repayment of installment and interest in respect of loan obtained for four foreign funded Projects had not been accounted and Therefore, loss for the year under review had been understated by same amount.</p> | <p>This is due to not paid capital repayment & Interest payment since 2022 March to up to now.</p> | <p>Expenses relevant for the period should be taken to the accounts.</p> |

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| xiii. | An interest income amount of Rs.17,579,677 relevant for the year under review in relation to fixed deposit and treasury bills had not been recognized as interest income of the year under review and therefore Loss for the year under review had been overstated by similar amount. | Not replied. | Income related to accounting period should be taken in to books of accounts. |
| xiv. | The amount of Rs.40,425,035 had not been recognized as interest receivable from General treasury in the year 2020 in relation to the Rs.30 billion obtained from National Savings bank as per the cabinet decision taken on 02 July 2020. Therefore, interest receivable as at 31 December 2022 had been understated by similar amount. | As per the cabinet decision such cost is borne by treasury. Further, it has been accounted interest paid by the NWSDB.
The policy to treat the interest receivable from the General Treasury has been disclosed in the Financial Statement of the year 2022. | Actions should be taken to rectify the error on recognition of receivables from Treasury. |
| xv. | Two buildings, Five lands, one three wheeler, one Motor Bicycle and Tractor and Tailor which are recorded in assets registers of Regional support centers had not been taken to the books of accounts by valuing the assets. | Not replied. | All Assets should be taken in to books of accounts. |
| xvi. | The advance amount of Rs.8,437,399 paid for completed wells in Ground water section had not been transferred to the expense account. Therefore, expenses had been understated by same amount. | The engineer has to provide the completion certificate to transfer them to the expense account. Once the certificate is received it will be transferred to the expense account. | Advance should be settled for completed works. |
| xvii. | No provisions had been made for the balance amount of Rs.66,369,263 payable as per the assessment of the Inland Revenue Department charged for the period of 2016 to 2017 for unpaid Economic Service Charge in the books of accounts even at the end of the year under review. | Discussion is being taken place with the department on this matter. According to matters arose as at now it is unlikely to arise additional tax liability. Hence, provision is not required to this balance. | Actions should be taken to make provisions for the payable due to Inland Revenue Department does not reply to the letter sent by the Board by requesting to reevaluate the assessment. |

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| xviii. | As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2022 was Rs.8,450,830,193. However, provision for impairment had been made only for debtors amounting to Rs.8,269,217,708. Hence, no provision had been made for the debtors aggregating to Rs.181,612,485. | The impairment calculation was based on actual figures given by commercial system; whereas, debtor balance reported in financial statement is based on estimated revenue which is disclosed in note no 20 to the financial statement. | Make provisions for total debtor balances. If there is any deviation between the ledger and the debtors system, make reconciliation to identify the reasons for differences. |
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1.5.4 Un-reconciled Control Accounts or Records

	Audit Issue	Management Comment	Recommendation
i.	Differences of Rs.89,736,141 in trade debtors and Rs.91,876,971 in new connection debtors were observed between balances shown in the financial statements and the balances shown in the age analysis schedules submitted by the commercial division of the Board.	Instructions have been given to the regional accountants to reconcile the new connection ledger accounts.	Actions should be taken to reconcile trade and new connection debtors between two systems and ensure the accuracy of trade debtors in the financial statements.
ii.	An un-reconciled difference of Rs.1,972,333,220 was observed between the value of metered sales, bulk sales, bowser supply and income from main operation shown in the VAT returns and the financial statements.	The un reconciled difference was observed between reports of commercial section and financial statements are already reconciled and passed correction JVs to Regional Accounts.	Reconcile the balances in financial statements, commercial system and income declared in VAT returns to identify the reasons for differences and submit all details to auditors for verify the accuracy of the sales figures.
iii	A difference aggregating to Rs.35,868,992,967 was observed in foreign grants of six foreign funded projects when compared the balances shown in the financial statements of the board with the individual financial statements of the respective projects in sample audit.	Not replied.	Actions should be taken to reconcile the differences accurately.

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| iv | An aggregate unreconciled difference of Rs.65,511,961 was observed between the work- in-progress balance of constructions works shown in the financial statements of the Board and the corresponding balances confirmed by the Regional Support Center- Sabaragamuwa. | Mentioned number in Board financial statements are not match with actual numbers. Project loan amounts are recorded on actual basis after the disbursement. But Board financial statements are updated on accrual basis. | Make reconciliation for differences and make adjustments if there is any. |
| v. | An aggregate unreconciled difference of Rs.6,656,905,735 was observed between the loan disbursement balance shown in the financial statements of the Board and the corresponding balances shown in the CS-DRMS report of the External Resource Department in sample audit. | The NWSDB has prepared the financial statements based on the Accrual basis but the amount shown in the CS –DRMS is based on the actual disbursements during the year. There is a time difference in the General Treasury to update and record the disbursements. | Identify the reasons for differences and make adjustments. |
| vi. | The difference of Rs.20,435,860,610 was identified between the balance shown in the financial statements of the Board and the balance shown in the financial statements of the General Treasury in relation to the Capital Contribution of the Board. | The debt was converted to equity due to a Policy decision taken by the Government. Accordingly the debt balance remaining as at 31.12.2014 was converted to equity. Further the disbursements after 31.12.2014 of the respective loans were also converted as equity as per the subsequent Cabinet Paper approval. Due to different accounting method adopted by both parties the said difference was created. However, reconciliation was done. | Reconcile the differences and adjust records accordingly. |
| vii | The difference of Rs.2,742,556 was observed between the balance shown in the trail balance of the Board and the balance shown in schedules submitted with the financial statements in relation to creditors control account. | Not replied. | Reconcile the differences and adjust records accordingly. |

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| viii | The unreconciled difference of Rs. 2,861,454 and Rs. 220,718,661 is remained more than six months without being cleared in Cash in transits account and debtor collection control account under cash and cash equivalents as at 31 December 2022. | The balance in this account is created due to the bill run amount and the cash transfers to head office. This will be cleared in the next cash transfer to Head Office. | Reconcile the differences and adjust records accordingly. |
| ix | A difference aggregating to Rs. 1,793,072,246 was 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 ten Foreign Funded Projects in sample audit. | Not replied. | Make reconciliation for differences and make adjustments if there is any. |

1.5.5 Documentary Evidences not made available for Audit

	Item	Amount Rs.	Evidence available	not Management Comment	Recommendation
(i)	Other Debtors	106,007,906	Detailed schedules and 219)	(217 Detail schedule has been already submitted to Auditor General	Actions should be taken to maintain the detail schedules for other debtors, other creditors, short term deposits, withholding tax, advance to contractors, and assets taken over by the department in order to take follow up actions.
(ii)	Other Creditors	306,911,958	Detailed Schedules	Detail schedule has been already submitted to Auditor General	

(iii)	Short Term Deposits in Other Institutions	5,561,100	Detailed schedules and reasons for existence.	Not replied.
(iv)	Withholding Tax	111,540,855	Detailed schedules and Certificates	NWSDB informed the due WHT Receivable amount to the Department of Inland Revenue during the submission of Income Tax Return.
(v)	Assets taken over from Government Department	185,480,387	Detailed assets list taken over.	Not replied.
(vi)	Treasury Grant	104,950,118,240	Detailed schedule with project related with the grants	Detail schedule has been already submitted to Auditor General
(vii)	Capital Grants- Local Authorities	1,107,413,083	Detailed schedule with project related with the grants	Detail schedule has been already submitted to Auditor General
(viii)	Foreign Capital Grants	3,657,640,079	Detailed schedule with project related with the grants	Detail schedule has been already submitted to Auditor General
(ix)	Grant Amortization Schedule	2,797,207,561	Detailed schedule with project related with the grants	Detail schedule has been already submitted to Auditor General

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
i.	Trade debtors, new connection debtors, sewerage debtors and other debtors aggregating to Rs.1,791.25 million had remained over two years without being recovered. Out of above trade debtors 62 per cent represents in Western South, Western North, and Hambanthota regions. Even though new connection debtors are to be recovered from 3 installments, Rs.5,658,157 had remained more than 3 years period without being recovered. An abnormal credit balance of Rs.15,569,200 remained in new connection debtors had not been investigated and settled even by the end of the year under review. Further out of the above balance a connection bearing the number 10/12/806/508/19 with an outstanding balance of Rs.5,666,581 with respect of condominium property had been transferred to free water category without having any valid reason.	Out of these trade debtors 62% represents in Colombo, Kelaniya, Kotte and Hambanthota regions. Further the outstanding arrears grew up gradually. Action has been now taken to recover the arrears. Each and every three month reports are submitted to the Board of Directors to take action with regard to these balances.	Take sufficient and necessary actions to recover due amount from the debtors as per internal circulars. If not followed the required procedure and action should be taken against employees who do not follow the procedure.
ii.	A sum of Rs.4,555,164 in respect of 11 water connections given to ministers' quarters had remained long outstanding without being recovered as at the end of the year under review.	Action has been taken to recover the relevant ministries and also the action to write off the arrears of the demised ministers.	Take sufficient and necessary actions to recover due amount from relevant parties.
iii.	Outstanding disconnected debtors as at 31 December 2022 was Rs.1, 622,784,509. Out of that, amounting to Rs.1,200,139,220 which is equivalent to 73 percent had remained outstanding over two years without being recovered.	Legal actions have been already taken to recover the outstanding arrears. A copy of the report submitted to the Auditor General along with the reply to the Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements for the year ended 31.12.2022.	Actions need to be taken to expedite the recovery process.

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| iv. | An outstanding balance of Rs.1,765,352 in respect of two illegal connections of Galle Urban Council due from 19 years and Rs.28,519,949 in respect of Colombo Municipal Council of due more than 5 years had not been recovered even by the end of the year under review. | 19 years ago the water section of the CMC was taken over by the Board. At that time the connections were not entered in the billing system. After investigation the loss of revenue was added to the water connection accounts. Currently the recovery of the loss of revenue is being followed up by the Galle region. | Immediate action should be taken to recover the losses incurred due to illegal water connections. |
| v. | When analyzing the confirmation sent to debtors, number of 53 accounts with aggregating value of Rs.135,262,006 had been confirmed by the 150 accounts with aggregating value of Rs.292,061,739. Number of 17 accounts value aggregating to Rs.66,201,380 had been returned due to inability to find the location and number of 11 accounts value aggregating to Rs.35,798,188 had been disagree with the balances of the Boards. | The confirmation requested from the consumers who are trade debtors do not respond to the confirmation request. | Need to verify the real address of the customer during the operations and the differences observed should be classified and found the reason |
| vi. | Sum of Rs.98,122,773 out of Rs. 242,002,232 of contract advances given under ledger code no. 242/0 is remained more than three years without being settle. The amount of Rs.8,176,092 out of them cannot be recovered from the contractor due to non-existence of the entity. No any evidences submitted for audit about the six legal cases filed for Rs.9,805,216 worth advances to identify the recoverability of those advances. | Time to time it is cleared but during the course of the business there will be remaining work. | Take necessary actions to recover those balances. Need to check whether the payment had done without recovering the advances. If it has happened, action should be taken to recover from responsible officers. |
| vii. | Refundable Short term deposits aggregating to Rs. 52,232,693 deposited in external institutions had remained outstanding over three years without being recovered and amount of Rs.11,953,200 out of them cannot be recovered due to non-availability of relevant document. Further, an advance given to line ministry | 264/03/1/00/0 – 221,242.00 This amount had been paid to Road Development Authority in the year 2017 February, as refundable deposit. In order to recover this deposit, the RDA has been informed in year 2022 (attachment 1), but no settlement | Take immediate actions to review the existence of deposits and advances and the recovery process should be expedited. |

amounting to Rs.4,378,829 had remained outstanding over nine years without being recovered. However, the recoverability of this advance is in doubt since it had not been shown in the statement of liabilities of the Line Ministry for the year under review.

has been made so far. Therefore, arrangements will be made to recover this in future payments of RDA.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
i.	The amount of Rs.1,177,322,071 is remained more than one year without being settled for trade and other creditors as at 31 December 2022. Further amount of Rs.292,174,896 is remained more than three years without being settled in accrued expenses account in relation to the Matara stage IV Water Supply Project.	Time to time it is cleared but during the course of the business there will be remaining work.	Actions need to be taken to settle the liabilities according to the normal procedure of the Board.
ii.	Refundable tender deposits amounting to Rs.17,454,939 had remained over three years without being released to relevant parties or credited to the income.	These deposits were not released due to extended the contract period of these contracts.	Necessary action should be taken to release the refundable tender deposit.
iii.	The Board had not paid the amount of Rs.80, 509,796 of Nations Building tax relevant for the year 2019 in relation to the Matara stage IV Project as at 31 December 2022.	The outstanding amounts of Rs.80,509,796 has not been paid as there was no GOSL allocation and the payment was not approved by the line Ministry to settle on vote basis.	Tax liabilities should be paid on due dates.

1.6.3 Advance

	Audit Issue	Management Comment	Recommendation
i.	The Land acquisition deposit amount of Rs.163,809,973 which is remained more than three years without taking actions to investigate and recover them. Out of that amount, Rs.43,515,989 is remained since the year 2016 without being identified due	Land Acquisition deposit amounts of Rs 163,809,973, Rs 43,515,989.00 and Rs 5,041,738.00 These figures could not be traced, hence the further details of them is required to provide explanations.	Actions should be taken to investigate the reasons for outstanding balances and make necessary action to settle them immediately.

to weakness in the internal control system of the Land acquisition. Credit amount of Rs.5,041,738 is remain in deposit account without being cleared since long period of time.

- ii. Loans and advances given to former employees –non active amounting to Rs.17,535,788 had remained in accounts for more than eight years period without taking proper actions to recover as at 31 October 2022. However, as per test check done by audit it was observed that more than 90 percent of the above employees who have obtained loans and advances had been given retirement without recovering the due amounts
- The Finance Department has been informed to recover the amount due to the Board from those who have retired according to the prescribed procedures, after which the payment of their gratuity has been directed to the Finance Department. The gratuity has been released after doing the necessary steps to recover the money owed to the board in respect of the deceased employees. But it seems that the correct information has not been revealed because the computer system has not been updated properly. The gratuities of those who have left the position, dismissed, banned from service, and taken leave without pay have not been released, and the money due will be collected at the time of their gratuity release. This only can do with support of other relevant departments in the Board.
- Immediate actions should be taken to recover those balances and if it is unable to recover, Action should be taken against the employees who allow retiring the employees without recovering receivables.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management comment	Recommendation
i. Section 104- (3), (4) Financial Regulations of Democratic Socialist Republic of Sri Lanka	Loss incurred due to unrecovered amount of Rs.778,335 from the insurance for the accidents had not been recovered for vehicle no. 253-5482, PE- 5419, GE- 6018.	Not replied.	Action should be taken to recover the losses from responsible parties as per the Financial regulations.

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| ii. | Section 1.8,4.6 and 7.4 of paragraph VII of Establishment Code of Democratic Socialist Republic of Sri Lanka | It was observed that a sum aggregating to Rs.945,883 had been provided for salaries in the books of accounts for seventeen employees who left their services, resigned and dismiss over three years period although they are not entitled for their personnel emoluments. | Action will be taken to transfer this amount to income statement after finalization of the respective cases. | Action should be taken to clear these balances. |
| iii. | Paragraph 13 (b) of agreement signed by officers proceedings on full pay study leave and Section 4.7 of the Chapter XV(2013) of the Establishment Code | The board had not refunded the value of expenses made for scholarship from the two employees who were unable to provide continued service to the Board after completion of the study leave. Bonds value was Rs.20,190,832. | Action is being taken to clear it. | Action should be taken to recover the expenses made by the Board from the employee as per the agreement conditions. |
| iv. | Paragraph 5.1 of Operational Manual issued for State Owned Enterprises by Department of Public Enterprises dated 17 November 2021 | A sum of Rs.269,323,092 had been paid as production incentive instead of Bonus without distribution of Dividends or Levis to the Consolidated Fund. | This is not bonus but an incentive which was paid according to the Treasury Circular. | Comply with the requirements of the operational manual. |
| v. | Management Services Circular No. 30 of 22 September 2006 and Section 3.2(i) of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 and the letter No.DMS/E2/19/4/0 64 dated 23 May 2011 of Director General of DMS | Approval for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained from the Department of Management Services even by the end of March 2023. | Even though the SOR has been finalized and was submitted to the Management Services Department. Copies attached. But several trade unions have raised issues on several aspects on the submitted SOR and therefore the opportunity for the trade unions was given to submit their suggestions for revisions. Once these revisions are discussed and concluded the revised SOR will be submitted to the Management Services Department. | Obtain approval for SOR from Management Service Department. |

vi. Management Service Circular No.02/2020 02(ii) and the Board decision based on Board paper No. S/253/2020-877, S/21/2021-882 and S/291/2021-892	Approval had not been obtained from the Management service department for the recruitment of 176 employees on contract basis against the Scheme of Recruitment of the Board in the year 2021 and 2022 and amount of Rs.216,711,905 had been paid as Salary and allowances up to 31 July 2022 for those employees.	Extension until September 2023 was obtained for the recruitment of 176 employees on contract basis against the Scheme of Recruitment.	Management Service Approval should be obtained for contract employees.
vii Public Enterprise . Department Circular No.01/2020 of 27 January 2020	<ul style="list-style-type: none"> • Paragraph 1.2 Chairman and Vice chariman use two vehicles instead of one vehicle. Further, 03 vehicles for Chairman and 02 vehicles for Vice chairman had been allocated according to the Board decision no.5/15/2022-898 under Vehicle Policy of the Board without referring to the Secretary to General Treasury. • Paragraph 1.4 The Board of directors had been approved fuel imprest amounted to Rs.60,000 in addition to the 150 liters per month for the Chairman and Vice Chairman of the Board without referring to the Secretary to the General Treasury since January 2021 under Board minute 4201(b). 	Depending on the requirement the vehicles are allocated to the sections.	Comply with the PED circular requirement.
viii Section 12.2 of Code of office Quarters and Section 3 of Board Circular No. Ad18/2015 dated 30 November 2015	Monthly bill value with a surcharge of 10 percent from salary shall be charged from employees whose water bills are outstanding. However no action had been taken to collect the outstanding water bill charges aggregating to Rs.809,142 with	Action will be taken	Comply with the Board's circular requirement and action should be taken against the officers who had not followed the circular

	surcharge from 168 connections with outstanding value exceeds Rs.1000 for over three months period.		requirements and recover the outstanding.
ix.	Board Circular No. 29/2021 dated 03 December 2021	In sample audit, it was revealed that the amount of Rs. 797,656 for 35 employees who had not reported no pay leave properly had been paid as Bonus in the year 2022.	Not replied.
			Comply with the Board's circular requirement and action should be taken against the officers who had not followed the circular requirements.
x.	General Manager's Circulars and Guidelines		
	<ul style="list-style-type: none"> Admin/12/2015 of 12 August 2015 	Legal actions should be taken within three months after the disconnection to recover outstanding debtors. However, legal actions had not been taken to recover the outstanding debtors aggregating to Rs.784.5 million in respect of 4,932 disconnected debtors whose bill value over Rs.50,000 as at 31 December 2022. Further no actions had been taken to disconnect the water supply from main line for 09 government quarters with outstanding bill value of Rs.420,312 in Ratnapura District even though reconnection had not been obtained after lapse of 3 to 12 years from the disconnection.	Legal action has been taken and is in progress and the details will be provided to Audit
			Should be followed the circular requirement

1.9 Cash Management

	Audit Issue	Management Comment	Recommendation
(i)	Cash frauds amounting to Rs.246.64 million committed at Trincomalee, Kelaniya and Ampara regions during the year 1999 to	08 cases have been filed in the Trincomalee High Court in connection with the financial	Ensure that Internal control procedures are in place to

2006 had not recovered even as at 31 December 2021. However, in relation to Trincomalee Region Rs.24.15 million had only been recorded as other debtors out of cash fraud of Rs.171.9 million. Further, another Cash fraud amounting to Rs.272,735 committed at Bandarawela Region during the year 2001 had not recovered from responsible persons even as at 31 December 2022.

fraud of the Trincomalee office. The CID has filed a case in the Colombo High Court regarding the financial fraud of the Kelaniya office and out of these cases, the loss related to one case has been settled after paying the loss to the Board. Further, The Attorney General's Department has also inquired into the matter as required and legal actions are taking with the instructions of the Attorney General regarding the other cases.

prevent from such situations in future. And action should be taken to recover the all losses to the Board.

- (ii) The amount of Rs.49,846,688 balance as at 31 December 2022 had been remained in saving account no.2000934 without getting investment decision and average balance in each and every month of the account is around Rs.33 million and investment decision of the Board are depend only on one employee of the Board instead of Investment Committee. Further, Investment committee had not been established even revenue of the Board exceed Rs.35 billion as per the 6.2 paragraph of the Operational Manual for State owned enterprises issued by Public Enterprise Department. Further, amount of Rs.1,500,082.86 had been remained in another savings account (A/C No.2002283) from the long period of time without any movement and investment decision.

Action will be taken to invest this balance in 2023.

Funds of the organization should be managed effectively.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre – tax net loss of Rs.3,063,953,871 and the corresponding pre – tax net loss in the preceding year amounted to Rs.3,054,327,099 (re-stated). Therefore, an increasing of loss by Rs.9, 626,771 of the financial result was observed. Increase in administrative expenses and finance cost by 5 and 421 per cent respectively and decrease in other operating income and gains by 21 per cent as compared with the previous year were the main reasons attributed for this deterioration in the financial results. However, gross profit was increased by 26 per cent than preceding year as result of comparative increasing in metered sales, Bulk and Bowser sales with tariff increment. Significant variances

were observed between the figures in relation to the budgeted and actual income and expenditure ranging from 12 per cent to 643 per cent. Hence, it was observed that budget had not been made use as an effective instrument of management control.

2.2 Trend Analysis of major Income and Expenditure items

According to the information made available, analysis of major income and expenditure items of the year under review compared with the preceding year is as follows.

Description	Variance Increase/ (Decrease) (Rs. Mn)		Variance %	Reason for the Variance
	2022	2021		
Metered Sales	32,533	25,258	29	Increase of tariff rates ,new connection given, increase in domestic consumption, increase in bowser supply etc.
Cost Of Sales	23,145	19,163	21	Increase in pumping cost, chemical cost, repair maintenance, rent & rates etc.
Other operating income & gains	1,289	1,796	(28.21)	Decrease in Sewerage, Ground Water Income, Miscellaneous Income including Surcharge, Penalties etc.
Administrative Expenses	14,450	13,715	5	Increase in Staff cost, Repair, maintenance and establishment expenses.
Finance cost	3,917	752	421	Increase in loan disbursements during the year as compared with previous year, installments falling due during the year and interest rates significantly increase.

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	2022	2021 restated
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Gross Profit Margin	35	34
Net Profit Margin	(9)	(11)
Current Ratio (No. of time)	0.67	1.40
Liquidity Ratio (No. of times)	0.57	1.22
Total Asset Turn over (No. of times)	0.04	0.04

According to the above information, key financial ratios on liquidity position of the Board for the year under review had shown an unfavorable condition as compared with the preceding year. This deterioration is mainly due to the increment of interest rates on loans taken, increasing the outstanding contractors' payables and loan balances as compared with the preceding year. Further, total outstanding loan balances of the Board had been increased from 240 billion to 335 billion or by 140 percent as compared with the previous year mainly due to increase in foreign loan exposure and nonpayment of loan installments during the year under review. Hence, the debt to equity (gearing) ratio had increased from 48 percent to 63 percent or by 15 percent as compared with the preceding year. The net loss has decreased by two per cent than preceding year due to increase the tariff from August 2022.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>i. As per Corporate Plan for 2020-2025 a new connection target of 327,685 had been established for the year in combined with "Water for all" concept under the National Policy Framework and later the target had been amended to 190,000 during the year 2022. However, only 153,217 numbers of new connections were given during the year. Further, the metered sales revenue had been increased by 29 per cent as compared with the preceding year even the number of new connection had been decreased by 20.24 per cent as compared with the preceding year.</p>	<p>Scope of the Water for All programs has been replaced with Capacity Enhancement and Distribution Expansion program. Hence, the initial scope was shrunk.</p>	<p>Actions should be taken to achieve the targets mentioned in the Corporate Plan.</p>
<p>ii. As per the consumer charter of the Board, the first bill should be issued to the consumer within 30 days of the date of new connection. However, a considerable delay ranging from 61 days to 163 days were observed in delivering of 1st bill in four regions (Kotte, Kauthara- Moranthuduwa, Maharagama -Kesbewa, Kelaniya) in 162 occasions as at 09 February 2023.</p>	<p>Steps have been taken to provide the 1st bill to the consumer without any unusual delay.</p>	<p>Ensure that comply with provisions in the consumer charter of the Board and internal control procedures should be strengthen to avoid such kind of failures occurring continuously.</p>

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| <p>iii. The Board had paid Rs.21.45 million or 30 percent of the valuation as advance on April 2014 to one of the land owners to purchase a land to construct a wastewater treatment plant under Galle Area Wastewater Disposal Project on the recommendation of senior legal officer of the Board. Subsequently, a court case had been filed to recover the advance paid; due to dispute occurred regarding the ownership of the land. Further, it was observed that the consent of the land owner to sell the land to the Board had been given prior to purchase the land by him. In addition to that it was observed that the land had been occupied some families even by the end of the year under review. However, Board had failed to recover advance paid and penalty thereon from the land owner and take any action against the responsible officers of the Board even as at 31 July 2022.</p> | <p>A case filed at the court to recover the advance payment and case is pending in court and warning letter had been issued for legal officer after investigation.</p> | <p>Ensure that ownership of Board's assets is secured and take actions against the responsible officers for recommending purchase to lands which has dispute.</p> |
| <p>iv. A boowble camera system valued at Rs.10 million remained at Pothuwil Officer in Charge office and sent to Akkareipattu manager office on 03 July 2017. However, it had not been repaired even by the end of the December 2022 and it had not been recognized at the physical verification of the Akkareipaththu manager office as at 31 December 2022.</p> | <p>The action is in progress to repair it.</p> | <p>Action need to take repair the Camera and to examine the reason for non-verification of Camera in the Board of survey.</p> |
| <p>v. The assets amounting to Rs.43,500,242 transferred between cost centers had not been removed from the accounts of initial cost centers. Therefore responsibilities of those assets are rest with the cost centers which are not utilized those assets.</p> | <p>It is agreed with the audit query and this situation has arisen due to the non-submission of Asset Transfer Forms at the time of transferring of asset from one cost center to another. Instructions were given to the respective officers to keep proper records as corrective measures.</p> | <p>Responsibility of keeping proper records on transferring assets should be assigned to the officer in charge of those cost centers.</p> |

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| vi. | The Board had not revised the lease rental with Colombo municipal council for the office space of Colombo south since 10 October 2014. Further provision had not been made for rentals from October 2014 to up to date. | There is an agreement and it will be submitted to the Auditor General. | Conditions of the agreement should be followed. |
| vii. | A sum of Rs.7,434,562 out of Rs.11,276,750 of Employee Security Deposit consist from the security deposit of retired employees and it had not been settled at the retirement. Further, Board Circular no.80/28 dated 07 October 1980 had not been updated to upgrade the values and only security deposits for the two positions had been obtained instead of 14 positions identified in the circular. | After the retirement of employees, it may take some time to clear all dues by getting clearance report. Hence it may take some time to settle the security deposit.

The circular will be amended. | Security deposits should be cleared when employees retired and Circular should amend to update conditions. |
| viii. | The Stock values amount of Rs.51,250,416 in five stores (Kebithigollewa, Padaviya, CKD stores Anuradhapura, CKD stores Polonnaruwa, Kollonna) had not been entered to the Inventory Management system as at 31 December 2022. | We agree with the auditors comments that four stores in RSC-NC (Kebathigollewa, Padaviya, CKD store -AP, CKD Store -PN) had not been computerized as of 31.12.2022. This situation was mainly due to lack of IT infrastructure facilities and human resources involved in the process. Subsequently all related issues have been addressed. | Corrective measures should be taken on this matter. |
| ix. | Obsolete stock of Rs. 4,030,131 , unserviceable stock of Rs. 210,294,082 and nonmoving stock of Rs.647,357,338 available as at 31 December 2022 had not been disposed by the Board. Further, Age analysis of those stocks had not been provided to the audit by the Board to identify the stock lagging period. | To dispose the Obsolete, Unserviceable and Non Moving items, the Post Stock Verification has been carried out after the Physical Stock Verification in every year as per the Clause 7 of the Stock Management Procedure manual. The same process is being followed up in 2023. Further, it is expected to make system developments in the | Necessary action should be taken to clear those items as per the instructions given in the Stock Management Procedure manual. |

IMS system in order to obtain stock age analysis.

- x. The action had not been taken to clear the stock shortage amount of Rs.2,468,141 and Rs.1,129,272 in Officer in charge office – Kohuwala and Kaluthra respectively as per the 6.1.3(2) of the Stock Management Procedure manual since the year 2018 and 2019 respectively.
- Already settled amount of Rs. 512,644.32
Balance amount to be settled 616,627.68
Investigation is processing by Internal Audit on this matter, balance will be corrected after investigation.
- Comply with the requirements of the Stock Management Procedure manual.
- xi. As per physical verification reports of Regional Support Centre, it was observed that Free Hold Buildings, Structures, Infrastructure, Computer & Other Equipment, Survey equipment, Mobile Equipment etc. with an aggregate value of Rs.92,334,466 had been damaged, removed from usage and demolished in relation to eleven cost centers. However, no proper actions had been taken to dispose them even at the end of the year under review.
- Viewing the prolonged delay in receiving board approval to clear declared assets from the books, a substitute program has been developed to formulate board papers at the site office level to expedite the process. After obtaining the approval, we will remove the values of these assets from our books. These items are identified as unserviceable assets and transferred to main stores. Accordingly, the necessary actions are taken to remove such unserviceable assets from the fixed assets register and fixed assets accounts.
- Dispose the unserviceable assets according to the circular requirement.
- xii. In respect of seven (07) Projects, the balances aggregating to Rs.198,729,791 shown under the work-in-progress are remained unchanged over twelve years without being investigated to identify the reasons and to make necessary adjustments in the financial statements even this matter is reiterated from previous year.
- The capitalization is normally executed part by part and the Project Director has to send the asset form to capitalize. Also at different stages valuation and approval for completion has to be obtained. These said projects are still in the above process.
- Capitalization of Projects should be done in time to utilize those assets.

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| xiii. | Considerable delay in acquiring land for the projects was observed due to selection of suitable lands is not done through technical committee, non prioritizing the requirement, non-confirming the security of the lands and delay in taking legal actions for unpermitted residence. Further, no data base system for lands had been established by the Board. | Lands acquired for the board are undertaken by the Land Acquisition Act, which follows a series of steps and takes several years to complete. | Land acquisition process should be streamlined. |
| xiv. | Value of other stock items amounting to Rs.66,521,168 in forty regions which had not been physically verified during stock verification had also been identified as inventory in the financial statements. Therefore existence of those stocks cannot be verified. | Value of other stock amounting Rs.66,521,168/- represent items which already sent for auction and not exist in the stores premises at the stock verification period. Therefore these items had not been taken for the physical stock verification. Further, such items are not sold up to year end and included under inventory. | Board of survey should consider the existence of those assets in its reports and further investigation should be conducted on this matter. |
| xv. | A Pipe Cutting machine with a cost of Rs.2,000,000 purchased prior to the year 2000 remained at warehouse of Western Production Regional Support Centre as ideal inventory. | Since it has not been issued yet it is in the inventory. It will be capitalized when it is being issued. | Machine should be used before expiration of the technology and inquire from responsible officers for idling the assets for long period. |

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
As per the financial statements, the stocks in transit (local purchase) and imported stock in transit as at 31 December 2022 was Rs.422,041,459 and Rs.5,697,583,838 respectively. Out of those stocks, Local purchase amount of Rs.47,511,660 had remained over three months without being cleared and imported stock in transit amount of Rs.1,982,346,307 had remained over two years without being cleared.	<p>out of the Rs.192 Mn. mentioned as Goods in Transit balance as at 31.12.2022 (over 2 years) only Rs. 114,149,009.15 are related to O & M budget.</p> <ul style="list-style-type: none"> - The LC account 00034/209/0 opened under project funds. This should be settled after receiving the JV from the project - All the other accounts are settled. 	Actions need to be taken to investigate the long outstanding stocks in transit balances and ensure the accuracy of recognition in stock in transit in the financial statements.

3.3 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
<p>Out of total allocation of Rs.983.5million provided for Development of Rural and Divisional Drinking Water Supply projects Rs.441.97 million had only been utilized at the end of the year under review. However, out of funds received amounting to Rs.227.0 million and Rs.79.39 million for Prevention of Water Borne Diseases in the CKD affected areas and for Augmentation of Trincomalee Water Supply Scheme respectively, an amount equivalent to Rs.222.9 million and Rs.75.86 million had only been utilized at the end of the year under review.</p>	<p>It was unable to meet the expected fund utilization due to lack of labour at sites, delay in supplying materials etc. as a result of the Covid-19 global pandemic situation.</p>	<p>Ensure that funds received for the projects are fully utilized.</p>

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>i. Thirteen (13) office quarters in four Water Supply Schemes (Damana, Irakkaman, Sagamma, Mandana) constructed at a cost of Rs.33,148,739 had remained idle at the end of the year under review.</p>	<p>These are abandoned but in the future these will be rehabilitated for use in the future..</p>	<p>Actions should be taken to fully utilize the officers' quarters.</p>
<p>ii. All the constructions relating to Iginiyagala and wadinagala and Damana Water Supply Scheme valued at Rs. Rs.5,585,337 and Rs.9,157,499 respectively had remained idled at the end of the year under review and necessary actions had not been taken to utilize those assets.</p>	<p>These are abandoned but in the future these will be rehabilitated for use in the future.</p>	<p>Make arrangements to utilize assets effectively.</p>
<p>iii. After the grace period for loan granted for Gampaha, Attanagalla & Minuwangoda Water Supply project by the China Development Bank, five loan installments amounting to USD 37.5 million had been paid at the end of the year under review. However, out of loan disbursed by the China Development Bank, a sum of USD 50,826,785.94 equivalent to Rs.18,887.57 million or 30 percent of loan had been retained in Escrow account without being utilized for project activities by the end of the year under review.</p>	<p>CDB Bank did not agree to restructure the loan agreement but undisbursed balance is required for continuation of the awarded contracts, therefore deposited in ESCROW account.</p>	<p>Actions should be taken to complete the project before agreed period of the contract and the financing agreements in order to achieve the expected outcomes.</p>

3.5 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
<p>i. With respect to seventeen foreign funded projects and five local banks' funded projects, a considerable delay ranging from 275 days to 2,131 days was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding, etc. even after granting extensions ranging from 02 to 07 occasions for those projects.</p>	<p>Project completion delay happened due to few main reasons. On 2019 Easter Sunday attack, 2019 none payment of bills for 8 Months due to shortage of government allocation, 2020 April covid issues, Fuel shortage in 2022, farmers protest, None payment of bills by funding agencies.</p>	<ul style="list-style-type: none"> • 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. • Close monitoring of the project by the Board's staff during implementation of the Project.
<p>ii. Out of loan disbursed by the China Development Bank for Gamapaha, Attanagalla & Minuwangoda Water Supply project, a sum of USD 50,859,161 equivalent to Rs.18,887 million or 22.17 percent of retained in Escrow account without utilizing for project activities by the end of the year under review even Project completion period extended to December 2023 in 5 occasions from the commencement. Further, the down payment and advance payment should be recovered from the interim payment certificates (IPC) within 36 months from the first IPC as per the contract agreement, a sum of USD 10,313,661 and USD 3,802,889 of Down payment and Advance payment respectively could not be recovered even 53 months spend from the commencement of the Project due to slow progress. Therefore, the Board had not utilized the Project Funds effectively to achieve its objectives.</p>	<p>Mobilization advance and down payment is recovered based on the work done as per the condition of the contract and not based on the month of the contract period. Therefore till the construction period is ended the advance and down payment have to be recovered. As per the conditions of the contract advance payment and the down payment has to be recovered by the end of the contract period. The initial contract period was 36 months. Subsequently extensions have been given considering acceptable reasons. Therefore, as per conditions of the contract recovery of the above payments was delayed.</p>	<p>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 agreements.</p>

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| <p>iii. The Phase II stage I Rathmalana, Moratuwa Waste Water Disposal Project had been temporarily suspended by the RAMP committee even amount of Rs.1,426,618,536 given as advances in 15 December 2021. However, very slow progress was reported by this Project and 5 components out of nine components had not commenced and around 6 per cent of Progress can be seen in three components even 15 months spent after the commencement. Hence, money of the Board is kept with the contractors for long period without utilizing for the purpose due to weak project monitoring.</p> | <p>Construction works were commenced on 12.05.2022 after completion of pre-constructions activities such as Mobilization, Insurances and performance bonds. Construction works slow progress is mainly due to economic crisis situations (in 2022). Further, according to the Mission Report of AFD Mission on 10th February 2023 and Government of Sri Lanka (ERD) this project management unit will be continued up to December 2023 in order to carry out the additional works mentioned in the same. Further the scope was reduced due to interim debt policy of GOSL up to the amount of advance given.</p> | <p>Actions should be taken to avoid project delays.</p> |
| <p>iv. As per the directives given by the Cabinet Decision No. 22/1286/604/022 and dated 05 September 2022 regarding the re-strategize and acceleration of large-scale development projects and as per the letter No. PMO/DEV II/ 2/2/1 dated 28.10.2022 issued by the Secretary of Prime Minister, Seven Projects which should be completed as at 31 December 2022 had not been completed as at 31 December 2022 and Twelve Projects which should be temporarily suspended are still in the process of suspending. Further, Committee had recommended to complete ten Projects within the year 2023 and to temporarily suspend the two Projects in the year 2023. However, expected results from those</p> | <p>Action has been already taken to re-strategize with all necessary amendments.</p> | <p>Actions should be taken as per the directives given by the Cabinet Decision for ongoing projects.</p> |

Projects cannot be reached even some considerable amount had been spent on those Projects.

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| v. | The amount of Rs.9,995,969 of Terminated five Projects in Sabragamuwa Regional Support Center is remained as ideal without any completion. | Not replied. | Project should be completed to get benefit from funds already utilized. |
| vi. | 196 of vehicles which were disposed by the Board are still registered in Department of Motor Traffic under the name of the Board and 32 vehicles registered cannot be identified. | It is in the process of scrutinizing and 196 vehicles have disposed by the Board time to time. | Need to remove the Board name from the register of RMV for the disposed vehicles to avoid unnecessary obligations and find the reasons for matter of 32 vehicles. |

3.6 Procurement Management

Audit Issue	Management Comment	Recommendation	
i.	Thirty crew cabs with suitable platforms to accommodate water tanks procured at Rs.228,540,780 under the Greater Colombo Water and Wastewater Management Improvement Investment Programme to supply water for deprived and vulnerable consumers had not been used for the expected purpose during the year under review. Therefore, amount of Rs.24,000,000 spent to fabricate and install a suitable steel platform for installing the water tank in crew cabs become uneconomical to the Board.	The chassis were brought from abroad and the body was built in Sri Lanka. This was done due to huge taxes being imposed for vehicles imported. The local value addition was done.	Funds received for Project should be used for economical purpose
ii	The amount of Rs.7,921,891 had been paid as indemnity for farmers for damages made to cultivation due to flooding which had not been identified at the planning stage of new salinity barrier made for Nilwala river. Further amount of Rs.11,075,000 had been allocated to pay for developing the new canal and for diesel need to pumping the water to avoid the issues arise due to barrier.	Salinity barrier was built to avoid sea water being mixing with river water. When sea water level raises with tidal waves the water which flows in the river will be spread in the paddy fields. It is a natural phenomenon in the environment.	All issues should be identified at the time of conducting feasibility studies to avoid unnecessary cost.

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| iii | The Procurement Committee had offered the contract for the supply and handed over of Ton 3,000 of Aluminium sulphate valued at USD 765,000 and Rs.9.9 million (SUP&MM/CHEM/ALUM-01/2021/02) to the contractor who was rejected by the Technical evaluation committee due to non-availability of financial capability. However, The Board had terminated the contract without claiming the liquidated damages from the contractor due to failure to supply the goods. | Not replied | Liquidate damages should be claimed from the contractor due to failure to supply the goods. |
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3.7 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation	
3.7.1 Matara Stage IV – Water Supply Project			
i	The Project had been commenced in order to provide drinking water for 321,954 populations expected to be in 2030. It had been commenced its activities on 11 October 2017 and schedule to be completed on 10 October 2020. However, due to the reasons of poor performance of the contractor, delay in approving drawings and delay in acquisition of lands etc. three time extensions had been given in three occasions up to 31 March 2023. Nevertheless, the physical progress of the project remained only at 93.1 percent even by the end of the year under review.	Due to the reasons of legal action was taken for Land owner of WTP, , delay in approving drawings and delay in acquisition of lands, impact of Covid 19, impact of economic crisis and delay in payment to the contactors etc. four-time extension had been given up to 31 March 2022.	<ul style="list-style-type: none"> • Actions need to be taken to expedite the project’s works so as to complete the project with in contract period. • Ensure all of the lands were acquired and all drawings were approved before commencement of the project.
ii	Contrary to the Para 14.6 of FIDIC guideline, The Board had paid amount of Rs. 1,019,104,555 valued 04 bills which are less than the 2.5 per cent from the contract value as per the Board committee decision in relation to the Mathara Stage IV Water Supply Projects. Hence, it was unable to cover the activities of the Project as planned and Project is already delayed in two years.	The Secretary of the Ministry of Water Supply granted approval by the Circular in the Annexure 3 not to consider the minimum payment requirement (2.5 % of the contract sum) by considering the Covid situation and financial crisis of the country during the period 2021 and 2022.	Comply with the FIDIC guidelines.

3.7.2 Water For All Project

The Project had established in the year 2021 with the objective of providing water for all population of the country end of the year 2025. The fund has allocated under annual budget by Rs.24,568 million, Rs.29,568 million and Rs.17,000 million for the year 2020,2021 and 2022 respectively.

Members of the Procurement committees had not been confirmed the funds availability at the beginning of the Water for all Project as per the requirements of the section 2.5.1(a) of the Procurement Guideline. Therefore, no funds received in the year 2020 and only Rs.7,559 million Rs.5,400 million received for the year 2021 and 2022 respectively. As a result of that, only 6 or less than 6 per cent progress was achieved in 1,330 activities out of 2,914 planned activities as at 31 December 2022. Further, amount of Rs.3,540,605,851 valued HDPE pipe imported for this Project is remained as at 31 December 2022 in the stocks insecurely throughout the island wide due to improper management.

Scope of the Water for All Procurement program has been replaced Committee should with Capacity Enhancement ensure the and Distribution Expansion feasibility of program. Hence, the initial Projects scope was shrunk.

3.7.3 The Board had terminated the contract agreement without claiming delay charges or Liquidity damages as per the para 8.11 of the Procurement Guideline or conditions of the contract agreement from the Contractor who failed to implement the contract properly under contract no. RSC(S)/P&C/S/DI/VALVES/PHARPMAZONE/H' TOTA/RECHARGEABLE/2021/185 in relation to the Water supply project of Hambanthota – Arabokka Pharmaceutical Zone.

Due to pandemic and Comply with the economic crisis could not be agreement conditions. completed.

3.7.4 The contract for rehabilitation of Water Treatment Plant in Rathnapura Hospital had been awarded with a delay of 3 years on 17 October 2018, even though the required funds had been disbursed by the Ministry of Health during 2015 and 2016. As per the contract agreement, the contract had to be completed on 28 February 2019. Nevertheless, due to poor contractor performances, the contact had not

Contractor had been Monitor the project suspended due to poor closely to complete performance. However later within scheduled the scope of the contract has period. been changed with granting time extension.

been completed even by the end of November 2022. Further the contractor had failed to commence the works until the validity period of advance bond expired.

3.8 Resources Released to Other Organization

Audit Issue	Management Comment	Recommendation
<p>Contrary to the provisions in Paragraph 3.5 Public Enterprises Circular No. PED/12 of 02 June 2003 and Section 3.5 of the Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021, During the year under review; the Board had paid a sum of Rs.22.87 million as salaries and allowances of fifteen employees who had been released to the Line Ministry. Accordingly, Ministry of Water Supply should reimburse Rs.238.99 million to the Board for the employees released to ministry during the period of December 2015 to 31 December 2022.</p>	<p>As per the National Policy the Vistas of Prosperity of the President the, water for all a programme implemented to increase the coverage of clean accessible water for all. Hence the line Ministry is greatly involved in executing this programme and staff was released to support it on the basis of reimbursement of their salaries to the NWSDB. But due to lack of budget allocation for this purpose the Ministry has informed such reimbursement is difficult.</p>	<p>Comply with the requirements of the operational manual.</p>

3.9 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>i. The Board had not taken actions to fill 2024 vacancies including 22 top levels, 45 middle level and 1957 lower level vacancies as at 30th September 2022.</p>	<p>Some recruitments had been done and some recruitments for staff grade v,vi,vii and viii,ix,x,xi,xii,xiv which should be externally recruited had been suspended as per the circular no. of 03/2022 dated 26 April 2022 of Finance Ministry.</p>	<p>Recruit adequate staff to the Board or amend the approved cadre of the board after proper evaluation of the cadre requirement.</p>
<p>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 and Section 3.2(i) of Operational Manual for State Owned Enterprises of</p>	<p>Draft SOR has been sent to Department of Management services.</p>	<p>Actions need to be taken to get the approval for SOR from Department of Management Services.</p>

Department of Public Enterprises dated 17 November 2021.

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| iii. | Approval for the recruitment of 01 Business manager, 05 instrument repairer, 02 Blacksmith, 17 sanitary assistant had not been obtained from Management Service Department. Further, 75 employees had been recruited in additions to the approved carder of the Board for the positions including positions mentioned in the above, Data analysis, supply officer, Management assistant, Meter readers and excavator operators. | Even there is no approved business Manager position; it is recruited on contract basis to promote the business of CEWAS center. Other positions had not been approved by the MSD when approving the Carder in 2012 and these positions will be abolished after retirement of them. | Approval for new positions should be obtained from the MSD to avoid unnecessary cost to the Board. |
| iv. | Even approval for the 52 Assistant general managers and 16 Assistant general managers (projects) had been obtained, only 61 Assistant general managers had been appointed and no person had been appointed for Assistant general manager (projects) positions. | Appointments for these two positions have done by considering combined positions. | Appointments should be done only for approved carder since the approval is given after assessing the service requirement of the Board. |
| v. | Approval for the 157 employees recruited for Water for all Projects for positions of Civil Engineer, Quantity surveyor, Engineering Assistant (civil) had not been obtained from the Management Service Department. | Even requested for approval from the MSD several times, it had not been received so far. | Approval should be obtained prior to commencement of the Project. |
| vi. | Information on transfer of employees of the head office had not been submitted for the audit and Data base for the employment had not been maintained by the Human resource division properly. Therefore no evidence to verify the efficiency and effectiveness of the transfer policy. | The transfer is implement with the consent of the employee and transfer is not done when completion of five years to inconvenience of employees. New database introduction is in progress and no data base to provide all information about the employee at the moment. | Develop data base immediately for transfers of employees for the benefits of employees. |
| vii. | Even though the qualification required for the Secretary (Special grade) position is 15 years' experience in Secretary post including 8 years experienced in secretary | Scheme of recruitment for this position had been amended and accordingly, internal application for vacancy had been called. | Approval of the Department of Management Service should be obtained for |

post of the Board with Bsc.Business administration (Special) degree or Chartered certificate of accepted organisation as per SOR, it was amended the requirement as per special degree or General degree with class when giving promotion for that post with the approval of the Board. However, Approval for that amendment from the Management Service Department had not been obtained.

amendments.

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| viii. | According to the sample audit, it was reveal that the accuracy of educational, professional and working certificate had not been confirmed as per the appointment letter at the recruitment and giving promotion for employees. | Certificate for GCE O/L and AL for Management Assistant related positions only certified up to now and it is expected to confirm all the recruitments in the future. | Certificate for all recruitments should be confirmed before confirmation of the service. |
| ix. | Only 68 complaints out of 182 complaints received from January 2020 to November 2022 had been examined due to only 25 employees available in investigation division. | Contract employees had been recruited and are expecting to get assistance on assignment basis to avoid this delay. | Need to expedite the resolution procedure to develop confidence among employees. |