

Head 332 - Department of National community Water Supply- 2024

1. Financial Statements

1.1 Qualified Opinion

Head 332 - The audit of the financial statements of the Department of National Community Water Supply for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 Departments of National Community Water Supply was issued to the Accounting Officer on 28 May 2025 in terms of Section 11(1) of the National audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 11 June 2025 in the terms of section 11(2) of the Audit Act. 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 Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of National Community Water Supply as at 31 December 2024 and its financial performance and cash flows for the year then ended in accordance with the financial statements which describes the basis of preparation of these financial statements in Note 1.

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 is further described in the Auditor's Responsibility Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of matter – Basis for the preparation of financial statements

I draw your attention to Note 01 of the financial statements which describes the basis of preparation of these financial statements. The financial statements have been prepared for the use of the Treasury and Parliament and Department of National Community Water Supply in accordance with Government financial Regulations 150 and 151 and State Account Guidelines No.06/2024 dated 16 December 2024 as amended on 21 February 2025. Accordingly, these financial statements may not be suitable for the other purposes. My report is intended only for the use of the Treasury, Parliament and Department of National Community Water Supply. My opinion in this regard is not modified.

1.4 Responsibilities of the Chief Accounting Officer and Accounting Officer for the Financial Statements

In compliance With Financial regulations 150 and 151 and State Accounts Guideline No. 06/2024 dated 16 December 2024 as amended on 21 February 2025, the Accounting Officer is responsible for the preparation of financial statements that give a true and fair view 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 Departments 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 Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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.

1.5 Auditor's Responsibility for the Audit of the Financial Statement

My objective is to obtain reasonable assurance about whether the financial statement 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 judgments 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 was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves fair presentation

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

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Property, Plant and Equipment

The following deficiencies were observed in accounting for Property, Plant and Equipment.

Audit observation	Comments of the Accounting Officer	Recommendation
(i) 04 motor vehicles belonging to other institutions, valued at Rs.10,700,000, had been included under the balance of transport equipment in the statement on non-financial assets in the financial statements.	The letter dated 26.08.2024 has been sent to the Ministry of Water Supply and Estate Infrastructure Development to take over Cabs No.GD-2179, GD-2233, and PA-3674 to this department. Actions are being taken to assign the cab vehicle numbered GB-0066 as well.	Assets of other institutions that are in use should be formally assigned or returned to the respective institutions.
(ii) 53 motorcycles provided to the department under the Water Supply and Sanitation Improvement Project (WaSSIP) had not been assessed and recorded in the accounts.	Ownership of these 53 motorcycles was registered in the name of the Director General, Department of National Community Water Supply, on 14 October 2024. Actions are being taken to obtain the assessed value of these 53 motorcycles.	The value of these motorcycles should be assessed and recorded in the accounts.
(iii) 02 vehicles, valued at Rs.100,000 and Rs.200,000 respectively, which had not been assigned to the department, had been recorded in the fixed assets register and in the financial statements.	Necessary actions were taken to transfer ownership and dispose of the motor vehicles numbered 18-5063 and GC-0258, which were not in running condition, and subsequent actions will be taken in accordance with F.R 767(1).	After ownership of vehicles not in running condition is transferred, action should be taken to either dispose of them or return them to the respective institutions.

2. Report on Other Legal Requirements

I express the following matters in terms of Section 6(1)(d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

Paragraph reference from the report for the previous year	Recommendation not implemented	Paragraph reference in this report
1.6.1(b)	04 motor vehicles belonging to other institutions, valued at Rs.10,700,000 and included under transport equipment valued at Rs.73,207,500 in the report on non-financial assets of the financial statements, should be formally assigned and entered into the fixed assets register.	1.6.1 (a)(i)

3. Financial review

3.1 Management of Expenditure

Audit observation	Comments of the Accounting Officer	Recommendation
Due to estimates being prepared without attention to accuracy and efficiency in according to the Financial Regulations of the Democratic Socialist Republic of Sri Lanka 50, there had been remained ranging from 11 percent to 81 percent as Rs.2,100,000 full provision allocated for 01 recurrent vote and 01 capital vote, Rs.6,529,173 of provisions allocated for 09 recurrent votes, and Rs.812,161,579 of provisions allocated for 02 capital votes,	Provisions remained due to factors such as the limitation of government expenditure in accordance with Circular No. 03/2022 of the Department of National Budget, non-performance of vehicle periodic services, non-expenditure on office building repairs, incomplete installation of software for computers, reductions in electricity and water bill charges in line with government policies, non-obtaining of property loans, and non-entitlement of officers to language allowances.	Provisions should be identified precisely and estimates prepared in accordance with the Financial Regulations, and the allocated provisions should be utilized efficiently for the intended purposes.

3.2 Incurring of Liabilities and Commitments

Audit observation	Comments of the Accounting Officer	Recommendation
Although Commitments and Liabilities should have been identified in accordance with Sections 2(a), (b), and 3 of Circular No.255/2017 of the Ministry of Finance dated 27 April 2017 and included in the CIGAS program, this had not been done in relation to liabilities amounting to Rs.12,567,607 for the year 2024, which were settled during the first two months of 2025	No obligations were outstanding as at 31 December 2024	Commitments and liabilities should be identified in accordance with the Circular and disclosed in the financial statements.

3.3 Utilization of Provisions made available by other Ministries and Departments

Audit observation	Comments of the Accounting Officer	Recommendation
From the provisions totaling Rs.146,886,750 provided during the year 2024 by the Ministry of Housing and Urban Development and the Ministry of Water Supply and Estate Infrastructure Development for the implementation of rural water projects and other programs, Rs.39,789,235 or 27 percent, had not been utilized for the intended activities.	Delays in construction were caused by issues arising from subsidence at the construction site of the Manikkadawara Water Project, insufficient time being available for the submission of bills under the construction of rainwater tank and kidney disease prevention programs, the severe shortage of technical staff, which has hindered progress.	When there are practical difficulties in the utilizing the relevant provisions, a notification should be made to the relevant institutions prior and the annual budgetary provisions should be utilized efficiently.

3.4 Certification of Accounting Officer

Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

Audit observation	Comments of the Accounting Officer	Recommendation
The Accounting Officer shall ensure that an effective mechanism exists to conduct an internal audit. However, the said requirements	With regard to the recruitment of a Chief Internal Auditor for the department, request No.	Action should be taken in accordance with the provisions of Section 38 of the National Audit Act,

had not been fulfilled due to audit observations indicated in paragraph 5.1 of the report. DNCWS/ADM/05/01/VOL-ii No. 19 of 2018. and the letter dated 03 April 2025 were forwarded by the Secretary of the Ministry of Urban Development, Construction and Housing to the Director General of the Department of Management Services.

3.5 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.

observation	Reference to Laws, Rules, and Regulations	Value (Rs.)	Non-Compliance	Comments of the Accounting Officer	Recommendation
(a)	Financial Regulation No.137 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	9,862,045	Payments for 20 printing machines were made by cheque No.133619 on 31 December 2024 without obtaining certification that the goods had been properly received in accordance with the Financial Regulations, and the goods had not been delivered to the department as of 31 July 2025.	Cheques were not issued for several ordered machines as they were incomplete or did not conform to specifications. The relevant machines have been notified to be delivered correctly.	It should be confirmed that the ordered goods have been received on time. Disciplinary action should be taken against officers who did not act in accordance with the Financial Regulations.
(b)	2006 – Sections 5.4.8 and 8.9.3 of the Government Procurement Guideline		During the procurement of the above-mentioned goods, no agreement was reached with the supplier regarding the delivery dates, and no action had taken to obtain performance guarantees. Consequently, the	Since the ordering and payment for the goods should have been completed before 31/12/2024, The agreement has not been signed	Disciplinary action should be taken against officers who did not act in accordance with the Government Procurement Laws and Regulations.

non-delivery of the goods within the specified period resulted in a loss to the institution that could not be recovered.

(c) Procurement Manual
- Section 7.9.2(m)

Although the engineering estimates should have been reviewed, where significant differences existed between the contract value and the estimates, in relation to the Manikkadawara Project, rates ranging from 43 percent to 87 percent below and 51 percent to 211 percent above the engineering estimates had been submitted by the contractor, and the contract had been awarded without analyzing the causes of these discrepancies and without a formal evaluation of the bids

No response was provided.

Bids should be evaluated in accordance with the Procurement Guidelines

4. Operating Review

4.1 Vision and Mission

Audit observation

Although Cabinet approval had been granted for the draft act to establish the Department of National Community Water Supply 10 years ago, action had not been taken to enact the relevant law by the end of the review year. Accordingly, the department did not have a legal background to carry out the tasks mentioned in the Cabinet paper related to establish the department.

Comments of the Accounting Officer

The relevant draft act was forwarded to the Secretary of the Ministry of Urban Development, Construction, and Housing on 08 May 2025. Furthermore, it has been proposed to appoint a committee for prepare this act.

The legal background should be created to ensure the proper conduct of the Department's functions by expediting the passage of the Act.

4.2 Non-Performance of Functions

Audit observation	Comments of the Accounting Officer	Recommendation
<p>In accordance with the Cabinet decision dated 11 July 2014, by 31 December 2024, 4,442 community-based organizations had been registered with the department to provide clean drinking water to rural communities, which was the primary objective. Although the regulation of these community-based organizations had been carried out by the head office and 25 district offices under it, the department had been unable to perform this function as expected. Furthermore, even though 10 years have passed since the establishment of the department, a systematic procedure had not been established within the department to formulate and update national policies for rural water supply and sanitation, in consultation with all relevant government and non-government institutions, or to test the quality of water supplied under water schemes, which are identified as the main functions of the department</p>	<p>The regulation of community-based organizations is carried out by the head office and the district offices. National policies related to rural water supply and sanitation are being formulated, and the testing of water quality has been identified as a legal requirement under the Water Safety Policy. These activities have been initiated in many districts.</p>	<p>Community-based organizations should be properly supervised and regulated to ensure the provision of clean drinking water to the public, and the formulation of a national policy for the water supply and sanitation sector should be expedited</p>

4.3 Non-Achievement of Expected Outcomes

Audit observation	Comments of the Accounting Officer	Recommendation
<p>(a) By 24 March 2022, a payment of Rs.16,383,889 had been made to a private institution by the Department of National Community Water Supply for the construction of 04 water purification centers and the supply and installation of package plants for 04 water projects in the Puttalam</p>	<p>At the time of project completion and final bill payments for these 04 projects, the package plants were operational. The use of the purification systems was suspended due to disagreements among the community members of the community-based</p>	<p>Disciplinary action should be taken against officers who acted negligently, contributing to the failure of this project, and necessary actions should be taken either to restore the project to operational status or to install water</p>

District. Due to the lack of consumer confidence in the quality of water supplied by these package plants, as well as the existence of nearby nano purification projects, water demand decreased. Consequently, by the audit date of 29 August 2024, these plants were not operational, the entire amount spent had been wasted.

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| (b) | Out of 56 Praja Jala Abimani projects subjected to the audit inspection in the Puttalam District, timely water quality test reports had not been obtained for 24 projects. | A significant portion of water quality tests had not been conducted among the community water supply schemes. It was highlighted to all districts that conducting these tests is a legal requirement under the Water Safety Policy. Accordingly, this activity has been initiated in many districts, and officers were instructed to enter the relevant information into the management system. | Necessary actions should be taken to provide clean drinking water to people by conducting timely water quality test. |
| (c) | Under the sanitation facilities provision project implemented by the department, a total of Rs.4,800,000 had been disbursed between 2020-2022 to 120 beneficiary families in the Puttalam District, at Rs.40,000 per family. Due to the lack of proper supervision, the related construction work had not been completed by August 2024, rendering the disbursed funds ineffective. | Recovery of funds from beneficiaries whose construction work was not completed is being carried out by the District Officer in charge. | This program should be implemented under proper supervision to ensure that the relevant services are delivered to the public, and disciplinary action should be taken against officers responsible for failing to implement the program under proper supervision. |

4.4 Projects abandoned without completing

Audit observation	Comments of the Accounting Officer	Recommendation
The Madampe Henepola Nildiya Dahara Project, Karuwalagaswewa Gami Sarana Project, and Nattandiya Siyasakthi Community Water Project in the Puttalam District, which were being constructed at a total cost of Rs.43,277,707 had been stalled due to various reasons.	As the Madampe Henepola Nildiya Dahara Community Water Project in Puttalam is in its final stage of construction, and permissions for roads have been obtained from the Road Development Authority for the Karuwalagaswewa Gami Sarana Public Community Organization and Nattandiya Siyasakthi Community Based Organization projects, all project work is scheduled to be completed within the year 2025	Necessary actions should be taken to expedite the completion of these projects and ensure that water is supplied to the People.

4.5 Delays in the Execution of Projects

Audit observation	Comments of the Accounting Officer	Recommendation
(a) Out of 244 projects initiated during 2020-2021 under the Praja Jala Abimani Program, 205 projects, as well as 5 projects initiated during 2019-2020, had not been completed by 31 December 2024 due to various reasons, with a total expenditure of Rs.1,754,058,041 incurred thereon. Although 05 years had elapsed since the commencement of these projects, failure to complete them and supply water to the public has rendered the funds expended ineffective.	Delays in construction activities occurred during 2020, 2021, 2022 due to the COVID-19 pandemic, the economic crisis, and fuel shortages in the country. All these projects have been re-evaluated, and completion is planned by the year 2027. A priority list has been prepared and included in the action plan to be implemented in 2025.	Necessary steps should be taken to expedite the completion of these projects and ensure that clean drinking water is supplied to the people, so that maximum benefits are derived from the government funds already expended.

- (b) The water project initiated in 2019 to provide clean drinking water to 800 households in the Manikkadawara and Maha Pallegama villages of the Kegalle District had its original estimate of Rs.68,097,803 revised to Rs.120,500,000 by 2023. By that time, Rs.32,863,884 had been expended on construction and the procurement of water pipes and equipment. Of this, Rs.2,031,924 had been spent on retaining walls for landslide protection, however, the constructed walls were found to be insufficient. Consequently, based on the recommendations of the Geological Survey and Mines Bureau, a new contractor was selected to construct retaining walls at an estimated cost of Rs.25,113,347. Furthermore, the well constructed at a cost of Rs.1,459,604 was not utilized due to insufficient water supply and Payments of Rs.917,345 had been made for site preparation, including land and road works (Site Work), for the construction of the water purification center, however, by March 2025, the purification center had not been constructed. For the Mahapallegama village, water was intended to be supplied from a constructed pipe well to the pumping station and distribution system under a contract worth Rs.40,304,273, which had been awarded to a private institution on 24 July 2024. This contract was
- Due to subsidence at the construction site, the works were temporarily suspended, and consequently, the installation of equipment and pipeline laying activities were not carried out. The equipment provided has been instructed to be properly stored in Sisilasa Community-Based Organization until installation. Payments amounting to Rs.917,345 had been made for the construction of the site and the access road to the purification center. However, the construction of this project is being completed soon.
- This project should be promptly completed to provide clean drinking water to the people. Disciplinary action should be taken against officers responsible for the mismanagement of activities and the imprudent expenditure of public funds due to the failure to properly plan and execute the project.

scheduled to be completed by 01 November 2024, however, by 31 December 2024, Rs.17,718,047 had been expended, the works had not been completed.

As of 31 December 2024, although 05 years had elapsed since the commencement of this project and a total of Rs.50,581,931 had been spent, no water had been supplied to any beneficiaries.

4.6 Projects without Progress despite the release of Money

Audit observation	Comments of the Officer	Accounting	Recommendation
<p>In 2021, a contract worth Rs.400,393,519 was awarded to a private institution for the installation of 140 nano water purification units across 11 districts to people suffering from kidney diseases, to be completed within 10 months. By February 2025, 18 of the units, installed in 04 districts for 5,414 beneficiaries at a cost of Rs.47,372,019, had not been made operational. Out of 54 units installed in 04 districts for 25,497 beneficiaries at a cost of Rs.183,451,853, water was supplied to only 3,835 beneficiaries. Furthermore, 22 units, planned to supply water to 7,310 beneficiaries, had not been installed by February 2025.</p> <p>In the Kilinochchi, Vavuniya, and Mullaitivu districts, 50 nano water purification units were planned for installation at a contract value of Rs.193,898,520. By November 2024, according to the final bill paid, work valued at Rs.174,274,077 had been completed. Accordingly, out of the contracted works, the works amounting to Rs.19,619,443 were not completed. Audits revealed that the installation of these units had not been carried out according to the approved standards. Payments were made based on certifications provided by the</p>	<p>Through this contract, all nano water purification units constructed in the Puttalam District are currently supplying water. Of the 42 proposed projects in the Kurunegala, Monaragala, and Anuradhapura districts, 19 are operational, while 14 remain at the construction stage. Construction of the remaining 9 projects has been halted. Programs are planned to inform the people, in coordination with the health sector, about the safe use of the treated water. In Vavuniya, a complaint has been lodged with the police regarding the loss of the pump installed in the Vavuniya Selihinigama water purification unit.</p>		<p>All constructed nano purification units should be brought into operation and measures must be taken to ensure that water is supplied to the targeted beneficiaries. Since the maintenance and safe operation of these units fall under the responsibility of the officers, appropriate actions should be taken accordingly.</p>
	<p>The site selection these purification centers connected the Ministry of Urban Development, Construction and Housing, together with the district officers of the Department of National Community Water Supply and the political authorities. Even when these projects were to be handed over to the public, the area</p>		

engineer and technical officers, even though electrical equipment had not been installed and water motors and pumps were missing at several locations. had not been covered by the National Water Supply and Drainage Board, and water supply was subsequently provided by the Water Supply Board.

4.7 Procurements

Audit observation	Comments of the Accounting Officer	Recommendation
<p>For the Kalutara Bulathsinhala North Urban Development Foundation water project, GI pipes and fittings valued at Rs.35,376,959 had been purchased from a private company on 15 March 2024. The estimate submitted by the contractor had been exceed the engineer’s estimate by Rs.6,496,371, representing an increase of 17.39 percent. The reasons for this discrepancy had not been analyzed in accordance with Section 7.9.2(m) of the procurement guideline. The pipe laying works had been carried out by the community-based organization, but although this work were scheduled to be completed by 16 May 2024, that had not been completed by the audit date in January 2025.</p>	<p>The contract for the purchase of GI pipes and fittings had been awarded to ABC Trade & Investment (Pvt) Ltd. Since it was difficult to meet the engineering estimate for the higher priced items submitted by the contractor, Rs.400,000 was deducted from the total bid amount.</p>	<p>The project should be executed in a manner that ensures its completion, so that maximum benefits are derived from the government funds expended on procurement activities.</p>

4.8 Asset Management

Audit observation	Comments of the Accounting Officer	Recommendation
<p>(a) Under the “Prajā Jala Abhimāni” program, 07 community water supply projects constructed in the Puttalam District had not been operational by October 2024, As a result, PVC water pipes valued at Rs.23,492,999 and water meters worth Rs.10,112,025 were installed unsecured in households, temples, and public areas as of December 2023. Although the</p>	<p>In the Puttalam District, the construction works of 05 projects are currently in the final stage, while estimates have been prepared for the Nattandiya, Thummodara, Siyashakti, and Mahawel-Kalmulla United community water supply projects. Procurement activities are scheduled to be carried out.</p>	<p>Necessary disciplinary action should be taken against officers involved in spending government money to make purchases before they are needed and allowing equipment to be destroyed, and the completion of community water projects should be expedited.</p>

Department had been informed of this situation, no action had been taken in response.

- (b) For the Manikkadawara Sisilasa Drinking Water Project, water pumps and accessories worth Rs.4,315,000 and 945 water meters valued at Rs.4,290,300 were purchased but had been stored unused for approximately 02 years. Additionally, a large portion of water pipes and accessories purchased in October 2020 for Rs.9,110,151 remained unused and were stored in unsecured locations until 31 December 2024, resulting in damage and deterioration.
- For this project, arrangements have been made to provide the supplied pumps to another suitable community organization, and the community-based organization has been informed to store the supplied water pipes in a secure location.
- Disciplinary action should be taken against the officers responsible for making premature purchases with government funds and allowing equipment to be damaged, while action should be implemented to put the usable equipment into operation.
- (c) Out of 1208 water meters provided to 08 community-based organizations in 07 districts in December 2023, 908 water meters worth Rs.9,267,055 had not been used as of 31 March 2025. These equipment, which were required after the completion of the project, were purchased without considering their actual need, and the warranty periods provided had been expired.
- The installation of water meters was delayed due to construction delays, non-payment of water connection fees by beneficiaries, and environmental issues that caused project work to be halted and Officers have been informed that the unused water meters should be reallocated to other committees in the district with existing requirements.
- Disciplinary action should be taken against officers responsible for making purchases without assessing actual needs, allowing equipment to be damaged, and misusing public funds. The existing stock of water meters should be put into use.
- (d) The mobile water testing vehicle provided to the Department of National Community Water Supply under the Water Supply and Sanitation Project had been parked at the Lakdiyya Madura premises since 27 September 2024 without being used for any testing activities.
- The vehicle was not utilized because the officials required for water testing activities were not available.
- Necessary actions should be taken to use the water inspection vehicle without allowing it to be destroyed.

4.9 Losses and Damages

Audit observation	Comments of the Accounting Officer	Recommendation
An amount of Rs.251,163, which was allocated for the Galle Imaduwa Saviya Water Project, had been transferred to the personal savings account of the Galle District Officer. Although action was required to be taken in accordance with Financial Regulation 156 and Section XLVII, Clause 5.3 of Volume II of the Establishment Code, no such action had been taken regarding this misappropriation.	An inquiry was conducted regarding this matter, and an investigation report has been obtained. Accordingly, necessary follow-up actions are to be carried out.	In this regard, actions should be taken in accordance with Financial Regulation 156 and the relevant provisions of the Establishments Code.

4.10 Management Weaknesses

Audit observation	Comments of the Accounting Officer	Recommendation
(a) In the years 2021-2024, sample audit inspections conducted on community water supply projects managed by the Department revealed that over payments had been made on 23 occasions totaling Rs.20,338,157 for contract works that had not been executed. In response to these findings, the Department only issued circular guidelines, advisory letters, and cautionary notices to the relevant officers to pay attention to the points raised. However, no disciplinary actions had been taken against the responsible officers in accordance with Financial Regulations 156 and Chapter XLVIII, Part II of the Establishments Code.	No response has been provided.	The matters pointed out by the audit should be dealt with in accordance with the Financial Regulations and the Establishment Code to cover the losses incurred by the government, and the Head of Institution should be held responsible for the ineffective financial control of the department in accordance with Financial Regulations 128.

- (b) 31 contracts for the construction of water projects worth Rs.301,565,687 were awarded by the department in the years 2021 and 2023 based on the Cabinet Decision No.22/0508/414/003 dated 22 May 2022 and National Budget Circular No.03/2022 dated 26 April 2022. It had been terminated by mutual consent, and the value of their work done was Rs.107,796,837. Among these, 14 contracts had completed more than 50 percent of the work, with a total work value of Rs.52,787,337. Although the above circular had been canceled by National Budget Circular No.01/2024 dated 10 January 2024, thereafter 20 projects valued at Rs.180,951,202 were also canceled. At the time of these contract cancellations, the advance bonds amounting to Rs.29,310,783 for 13 contracts and the performance bonds amounting to Rs.6,346,593 for 14 contracts had been expired.
- No response has been provided.
- Projects were initiated without proper planning and capacity, allowing public funds to be rendered unproductive, and disciplinary action should be taken against the responsible officers. Furthermore, necessary actions should be implemented to recover the losses incurred by the government due to the improper execution of these projects from the officials accountable.

5. Good Governance

5.1 Internal Audit

Audit observation	Comments of the Accounting Officer	Recommendation
According to Department of the Audit and Management Circular No.DMA/01-2019 dated 12 January 2019, paragraph 03, and Section 40 of the National Audit Act No. 19 of 2018, an internal auditor had not been appointed to the institution.	A request numbered DNCWS/ADM/05/01/VOL-ii, along with a letter dated 03 April 2025, was submitted by the Secretary of the Ministry of Urban Development, Construction and Housing to	A suitable internal auditor should be appointed and an internal audit unit established to strengthen the internal control of the institution.

Furthermore, the internal audit officer appointed to the department in 2020 was designated as the Departmental Accountant by the Director General in 2021 without formal approval, resulting in the position remaining vacant since that date.

the Director General of the Department of Management Services regarding the appointment of a Chief Internal Auditor for the department.

6. Human Resource Management

Audit observation

As of 31 December of the year under review, the number of vacancies in all categories, including 18 posts out of the 36 approved, actual, senior level posts in the Department, was about 21 percent. 03 full-time acting appointments had been made for 03 approved senior level posts and 09 employees had been recruited on a contract basis for the approved posts.

Observations of the Accounting Officer

With the restriction on new recruitments to the public service, officers have not yet been appointed to the vacant positions. For the post of Director General, a full-time acting appointment has been made in accordance with a Cabinet decision. The posts of Director (Planning) and Director (Monitoring and Evaluation) have been filled on a full-time acting basis by the Public Service Commission for a period extending up to one year or until the date on which the vacancies are fully filled, whichever comes first.

The department's staffing requirements should be properly identified, and the approved staff structure should be revised accordingly, with recruitment carried out to fill the necessary positions.