

National Water Supply and Drainage Board - 2013

The audit of financial statements of the National Water Supply and Drainage Board (NWSDB) for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Water Supply and Drainage Board (NWSDB) as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (LKAS)

LKAS 2 – Inventories: The stock items stored at sites valued at Rs. 51.67 million as at 31 December 2013 had been classified in the financial statements based on the place of storage without being classified based on the types or nature of the items.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Sums aggregating Rs. 458.89 million in relating to the stocks of motor vehicle spare parts, water pumps and pump spare parts had been capitalized without considering the capitalization criteria of the property, plant and equipment (PPE). Hence, the PPE shown in the financial statements had been overstated by similar amount.

Further, the pumps, pipes and spare parts capitalized during the year under review was Rs.690.88 million but the value of physically verified balance as at 31 December 2013 was Rs. 707.56 million. Therefore, the PPE shown in the financial statements as at 31 December 2013 had been understated by Rs.16.68 million.

- (b) The following observations are made in respect of the net value of the property, plant and equipment amounting to Rs.107,314.69 million shown in the financial statements.
- (i) Non-current assets amounting to Rs.24.24 million which remained at stocks had not been brought to the accounts and therefore, the PPE and stocks balance had been understated and over stated respectively by similar amount. Further, the depreciations shown in the financial statements as at 31 December 2013 had been understated by Rs.1.07 million.
- (ii) Even though the lease period of assets valued at Rs. 48.27 million at Ambatale Water Treatment Plant obtained by the Board from a private company on lease basis for a

period of ten years during the year 2002 had been elapsed on 30 September 2012, this had been brought to accounts as an asset of the Board.

- (iii) A stocks of 77 items of non-current assets of the Eastern Regional Support Centre had not been valued and accounted for.
 - (iv) Non-current assets totalling Rs.13.68 million had been included twice in the PPE shown in the financial statements and depreciated at Rs.228,508, thus understating the profit for the year under review and overstating the PPE as at 31 December 2013 by similar amount.
 - (v) The motor vehicles, buildings and other non-current assets valued at Rs.499.29 million belonging to Southern Regional Support Centre had not been taken to the financial statements for the year under review and depreciated. Therefore, the profit for the year under review had been overstated by Rs.22.89 million.
 - (vi) Even though the motor vehicles valued at Rs. 39 million purchased from foreign grants had been capitalized by the Kelaniya Region Office, the amortization of grant amounting to Rs.1.95 million for the year under review had not been adjusted in the financial statements.
 - (vii) A land valued at Rs. 2.64 million included in the work-in –progress of the Yatiyanthota Water Supply Scheme had incorrectly been transferred to the PPE as Rs. 26.4 million in the year 2012. as that error had not been rectified during the year under review, the property, the plant and equipment and work -in- progress shown in the financial statements for the year under review had been overstated and understated respectively by Rs. 23.76 million.
- (c) The following observations are made in respect of the net value of stocks balance amounting to Rs.3,800.86 million shown in the financial statements.
- (i) The provision made for the obsolete stocks had been overstated by Rs.2.81 million due to incorrect computations.
 - (ii) The stocks valued at Rs.4.23 million received from Sri Lanka Tsunami Sector Areas Recovery and Take-off Project (START) to Kalutara Regional Stores had not been brought to the accounts. Further, 8,246 stocks items received from Biwater Project to Negombo Production Centre had not been brought to the accounts.
- (d) Without calculation of actual cash movement of the fixed assets and capital work-in-progress for the year under review, the difference of Rs. 21,595 million between the opening and closing balance of that account had been identified as cash outflow in the cash flow statements of the year under review. The actual amount spent during the year under review could not be ascertained in audit due to non-maintenance of required records.
- (e) The following observations are made in respect of the work-in- progress balance of Rs.121,425.42 million shown in the financial statements.

- (i) The cost of completed and commissioned 144 water supply Projects amounting to Rs.4,460 million had remained in the work-in-progress as at 31 December 2013 without being capitalized. Further, nine projects costing Rs. 122.64 million out of them had been completed over four years ago.
 - (ii) The above mentioned work-in-progress balance had been understated by Rs. 20.87 million due to abnormal negative balances included therein.
 - (iii) Balance aggregating Rs. 1,007.14 million had remained unchanged over period ranging 3 to 7 years without being investigated in order to make necessary adjustments in the financial statements.
 - (iv) Two outside Projects undertaken by the Board for Rs. 129.1 million had been completed and handed over to the respective parties as at 31 December 2013. Nevertheless, they were remained in the above mentioned work-in-progress balance.
 - (v) Certain expenditure in relating to the completed and capitalized three Projects costing Rs.87.67 million had remained in the work-in-progress without being transferred to the respective assets account.
 - (vi) The work-in-progress balance of the Greater Colombo Rehabilitation Project had been understated by Rs.2.02 million due to recording the reimbursement of salaries twice in the accounts of the Board and omission of overhead expenditure therefrom.
 - (vii) Kaluthara Regional Support Centre had been included a sum of Rs. 999,511 of expenditure which was not related to the work-in-progress .
- (f) The following observations are made in respect of the balance connected to Rs. 2,431.66 million shown under loan interest payable in the financial statements.
- (i) Interest payable for the years 2011 and 2012, and the first half of the year 2013 in respect of loan obtained for the Project on Consultancy Services of Non-revenue Water (NRW) Engineering Study/Master Plan amounting to Rs.2.2 million and Rs.2.48 million respectively had not been brought to accounts.
 - (ii) Interest aggregating Rs.77.24 million for the years 2010 and 2012 in respect of the Scheme of Integrated Water Supply for the Unserved Areas of Ampara District –Phase III had not been accounted for. Further, the interest due for the second half of the year under review had also been not ascertained.
 - (iii) Interest in respect of the year under review had not been computed and brought to accounts on the loan balance amounting to Rs. 34.14 million shown in the financial statements as at 31 December 2013 in respect of Project for Design and Construction of Drinking Water Treatment Facility for Moratuwa, Panadura and Negombo under Spanish Tsunami Facility Fund due to un-identifying the facility granted to the Board as loan or grant.

In this regard the Chairman of the Board stated that ***“The Treasury has approved to convert the outstanding loan and interest as at 31December 2014 into Government***

Equity to NWSDB. The accounting entry to convert the outstanding loans and interest will take place in the year 2015 accounts.”

- (g) The sub-loan granted by the General Treasury for the Jaffna Killinochchi Water Supply Project funded by the Asian Development Bank amounted to Rs. 88.12 million had not been brought to the financial statements for the year under review. Further, the work-in-progress balance of the Project amounting to Rs. 88.12 million had also been omitted from the accounts.
- (h) The foreign aid granted by the Government of France and French Development Agency for Greater Trincomalee Water Supply Project in 2009 amounted to Rs. 133.72 million . The General Treasury had treated a half of that as a grant and the balance half as a sub-loan. However, the Board had accounted the entire amount as a loan in 2009 and the error had been rectified in 2012. But, the interest accounted for the entire amount during that period had not been rectified in 2013 as well and as a results, the net profit of the year under review and the retained profit as at 01 January 2013 had been understated by Rs,4.01 million and Rs. 12.03 million respectively while overstating the payable balance as at 31 December 2013 by Rs.16.05 million.
- (i) According to the financial statements of the year 2013, the balance in the Foreign Grants Account as at 31 December 2013 amounted to Rs.128,841.23 million and the following deficiencies were observed in this regard.
 - (i) Gratuity paid in the years 2010 and 2012 totalling Rs.5.94 million had been debited to the Grant Account without being debited to the provision for gratuity account. Therefore, the balances of the provision for gratuity account and the grant account shown in the financial statements as at 31 December 2013 had been overstated and understated by similar amount.
 - (ii) Foreign grants received amounting to Rs.339.4 million and Rs. 49.21 million for the Jaffna Killinochchi Water Supply Project and Improving Community Base Rural Water Supply and Sanitation Project respectively and related work-in-progress had not been brought to the accounts of the Board.
- (j) New water supply connections given on credit basis had not been brought to the accounts as debtors. But, the monthly installments paid by the water consumers had been credited to the New Connection Debtor Control Account and as a result, the New Connection Debtor Control Account shown in the financial statements had reflected a credit balance of Rs.17.31 million. Due to the above lapse the new connection income had also been understated by that amount.
- (k) Debit balances in liabilities and income accounts aggregating Rs.27.06 million and credit balances in assets and expenditure accounts aggregating Rs.122.45 million shown in the accounts appeared to be abnormal and also distorted the financial results and financial position of the Board for the year under review.
- (l) The sub-loan agreements for 11 foreign loans obtained by the Government of Sri Lanka for water supply Schemes amounting to Rs. 10,455.8 million had not been entered into with the General Treasury and as a result, their loan and grant portions could not be separately

identified in audit. Hence, the accuracy and completeness of the loan balance, differed grant, amortization of the differed grant and the interest expense and liability shown in the financial statements as at 31 December 2013 could not be ensured.

- (m) Receivable balance of the construction cost incurred in relation to rechargeable works amounting to Rs. 37.61 million had been shown inappropriately under deposits and advances in the financial statements without being set off against the related customer advances.
- (n) Inactive salaries and wages payable account balance carried forward in the financial statements since the year 2000 amounted to Rs. 36.87 million. However, an error correction for Rs. 8.8 million in relation to the salaries and wages payable for the years 2001 and 2002 which was detected in 2012 had erroneously been set off against the above mentioned account balance which had not been corrected in the year under review as well.
- (o) Although 61 schemes of rechargeable works had been completed and handed over as at 31 December 2013, the un-cleared balance amounting to Rs.28.51 million was observed in Rechargeable Customer Advances Account in respect of those schemes.
- (p) The sea water purification plant constructed in the year 2009 under Project of the Design and Construction of Drinking Water Treatment Facility for Moratuwa, Panadura and Negombo using Spanish Tsunami Facility Fund amounting to Rs. 363 million had not been capitalized even elapsed of five years as at 31 December 2013.

It was further observed that, the above facility had not been in operation since July 2010 due to problem in intake. However, Rs. 14.8 million had been spent for the electricity, hiring of motor vehicles and service agreements for office equipment for the period of 2010 to 2013.

- (q) Foreign grant balances aggregating Rs.10,358.38 million relevant to 29 Projects which had been remained unchanged over a period of 8 years as at 31 December 2013 without being amortized. The impact on the financial statements due to non-amortization could not be ascertained in audit as there were no details of the assets relevant to those foreign grants.
- (r) Transactions aggregating Rs. 2.45 million accounted for as foreign grants which could not be allocated for particular projects had not been amortized as at 31 December 2013.
- (s) The total value of assets donated to the Regional Support Centres of Tirukkovil and Potuvil by the UNICEF and Red Cross Organizations amounting to Rs.1,252.66 million had been transferred to the Head Office Grant Account without being accounted under the respective grants which had not also been amortized.
- (t) The benefit of the Government loans granted at interest rates below the market rates had not been treated as Government grants in the financial statements.
In this connection the Chairman of the Board had stated that ***“The Government is the sole shareholder of capital provider which provides loan schemes along with grants and other assistance incorporated into the loans and subsidies loans. Therefore, there are no competing organizations which provide loans based on the same conditions which the Government provides. Hence, the National Water Supply and Drainage Board could not obtain the market rate of the interest rates of the loan schemes offered by the Government.”***
- (u) According to the audit test check it was revealed that, the balances of the Imprest Fund Accounts maintained at the Central Bank of Sri Lanka in respect of the foreign funded

Projects at the end of the year under review aggregating Rs.283.59 million had not been brought to the accounts.

- (v) The work-in-progress balance of Jaffna Killinochchi Water Supply Project and Ratmalana, Moratuwa and Ja-Ela Ekala Waste Water Management Project had been understated by Rs.389.04 million and Rs. 22.01 million respectively.
- (w) The work-in-progress balance of Dry Zone Urban Water Supply and Sanitation Project and Greater Colombo Waste Water Management Project had been overstated by Rs.145.62 million and Rs. 291,000 respectively, due to imprest account balance brought to the work-in-progress balance and cording error made in accounting respectively.

2.2.3 Un-reconciled Differences

The following observations are made.

- (a) Differences amounting to Rs.180.42 million and Rs. 593,910 were observed between the trade and other receivables and other payables respectively shown in the financial statements and relevant schedules.
- (b) A difference of Rs.886,102 was observed between the loan interest balance shown in the financial statements of the Kaluganga Project and in the financial statements of the Board .
- (c) A difference of Rs.1,087.44 million was observed between the balance of advances paid for special projects as shown in the financial statements and the balance shown in the age analysis furnished to audit.
- (d) Debit balances totalling Rs.819.63 million relating to 13 debtors accounts and credit balances totalling Rs.266.62 million relating to 11 creditors accounts remained un-reconciled due to non-availability of a system for the reconciliation of individual debtor and creditor balances with the Control Accounts. Out of these credit balances totalling Rs.50.42 million and debit balances totalling Rs.137.81 million had been older than three years.
- (e) A difference of Rs. 16.44 million was observed between the stocks ledger balance and the computerized inventory system balance in respect of the Brass item in the Main Stores due to failure of generating adequate information through the newly introduced computerized inventory management system.
- (f) Differences totalling Rs.3.7 million was observed between the Value Added Tax on output as shown in the financial statements and the amount computed by the audit based on the information furnished in respect of water sales of the Western Central Regional Support Centre.
- (g) The work-in-progress balances as shown in the financial statements of the Regional Offices had not been reconciled with the detailed schedules and as such a difference of Rs.4.39 million was observed.
- (h) The work-in-progress balances as shown in the financial statements for the year under review had not been reconciled with the balances shown in the individual financial statements of the

Greater Trincomalee Water Supply Project and a net difference of Rs.953.22 million was observed between these two financial statements.

- (i) Unidentified debit balances totalling Rs.1.83 million relating to five accounts and unidentified credit balances totalling Rs.15.12 million relating to seven accounts had remained in the financial statements for considerable period without being cleared .
- (j) The Collection Control Account balance of the Trincomalee Regional Office as at 31 December 2013 amounting to Rs. 5.11 million had remained in the accounts without being cleared over a period of 3 years.
- (k) Although information in relation to income from sales is being maintained by the Commercial Division of the Board, significant differences of Rs. 1,088.2 million, Rs. 4.5 million and Rs.101.8 million were observed between the financial statements figures and the figures in the records maintained by that Division in respect of Meter Sales, Bowser Supply (503) and Bulk Supply (502) respectively.
- (l) Unidentified and un-reconciled long outstanding debit and credit balances yet to be reconciled as at 31 December 2013 amounted to Rs. 236.23 million and Rs.190.26 million respectively.

In addition to the aforesaid debit and credit balances which had already been categorized as inactive, there were several other unidentified balances aggregating Rs. 57.41 million as at 31 December 2013 as well.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Short Term Deposits balance of Rs. 33.08 million kept at the Road Development Authority (RDA), Provincial Road Development Authority (PRDA) and Urban councils had remained unrecovered since the year 1999.
- (b) An advance of Rs.4.38 million given to the then Ministry of Water Supply and Drainage prior to the year 2002 had not been settled even at the end of July 2015 and any action thereof had not been taken by the Board in this connection.
- (c) The other debtor balance included under other receivables as shown in the financial statements as at 31 December 2013 amounted to Rs.64 million. Out of that, the balances older than three years amounted to Rs.22.33 million and the balances older than 11 years amounted to Rs.12.3 million. The balances outstanding from the Colombo Municipal Council represented Rs. 54 million or 84 per cent of the total outstanding balance. Effective action had not been taken to recover these balances.
- (d) Colombo Municipal Council debtor balance shown in the financial statements amounted to Rs.28.52 million and out of that, Rs.16.26 million had been older than nine years and the remaining balance had been older than three years. Effective action had not been taken to recover those balances.

- (e) Effective action had not been taken for the recovery of the sewerage debtor balance amounting to Rs. 9.21 million older than 3 years as at 31 December 2013.
- (f) Action had not been taken to recover a sum of Rs. 2.42 million, Rs. 586,232 and Rs. 1.8 million of stock shortages of the stores at Kelaniya and Kegalle Regional Offices and Ground Water Section respectively identified in 2010 and 2013 from the person responsible for those shortages.
- (g) Action had not been taken to recover the loans given to the staff amounting to Rs.9.49 million older than 8 years.
- (h) Action had not been taken for the recovery of staff loans and advances given to employees amounting to Rs. 21.27 million categorized as non- performing loans.
- (i) Water pumps and fittings valued at Rs. 1.40 million issued to the contractor of the Mannar Water Supply Scheme in the year 2012 had neither been replaced nor return.
- (j) Action had not been taken for the recovery of advances granted to suppliers and contractors amounting to Rs. 1.06 million and Rs.19.3 million during the period of 1997 to 2012 and 1999 to 2012 respectively.
- (k) Advances granted to officers and organizations for purchases during the period 1995 to 2009 amounting to Rs. 906,013 had not been settled even at the end of July 2015.
- (l) The inactive balance of Rs.30.5 million and Rs. 11.34 million of the Trincomalee and Homagama Regional Support Centres had remained in the collection control account without being cleared over a period of 3 years.
- (m) Goods-in-transit balance amounting to Rs.40.75 million as at 31 December 2013 remained over a period of two years without being investigated.
- (n) Customer advances balance totalling Rs.6.27 million relating to three rechargeable works had remained over 15 years without carrying out any works.
- (o) Expenditure had not been incurred from the consumer advances received amounting to Rs. 2.81 million and Rs.1.06 million for rechargeable projects of Western South , Western North Regional Support Centres since 2010 and 2012 respectively.
- (p) Actions had not been taken to recover the advances receivables totalling Rs. 145.18 million and settle the payables totalling Rs. 45.87 million remained over the 2 years period.
- (q) Actions had not been taken to recover the advances amounting to Rs..8.55 million and Rs.5.52 million granted for the special Projects had remained outstanding over two years and outstanding since the year 2004 respectively without being taken any recovery action.

2.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) The detailed schedules of the short term security deposit balances in respect of the Accounts Code Nos. 00/0/20/264/0 and 00/0/65/264/0 amounting to Rs.12.68 million and Rs.1.35 million respectively were not made available to audit.
- (b) Reasons for not paying the output taxes of VAT amounting to Rs. 40.27 million in respect of four Regional Offices were not made available to audit.
- (c) Reasons for Rs. 1,007.15 million of balances remained in the work-in-progress accounts over a long period without being unchanged were not made available to audit.
- (d) Rechargeable works are the jobs which can be completed within a shorter period, in most cases less than one year. However, advances aggregating Rs.70.82 million obtained from customers in respect of 30 rechargeable works undertaken over a period for more than three years as at 31 December 2013 had been shown in the financial statements without any change. Further, advances aggregating Rs. 284.65 million obtained from customers in respect of 76 rechargeable works undertaken over a period more than two years as at 31 December 2013 had also been shown in the financial statements without any change. The progress reports and the reasons for delays etc. in relation to individual jobs were not made available for audit.
- (e) Detailed schedules relating to the rechargeable works amounting to Rs. 69.17 million had not been furnished to audit. Further, details relating to 17 rechargeable water schemes valued at to Rs.14.21 million of the Ratnapura Regional Office and eight rechargeable water schemes valued at Rs.7.58 million of the Trincomalee Regional Office had not been furnished to audit.
- (f) A rechargeable work receivable balance of Rs. 6.04 million was observed in Trincomalee Regional Office as at 31 December 2013. Details of that balance were not made available to audit and the balance had been carried forwarded in the accounts year by year over a period exceeding 3 years without carried out any investigation.
- (g) The details of the contracts for which advances of Rs.44.34 million had been granted during the period of 2000 to 2008 to confirm whether, they had been completed or not, were not made available to audit.
- (h) The detailed schedules and age analysis of trade and other debtor balance of Rs.2.26 million other payables balance of Rs.135.28 million and capital grant balances of Rs.210,017.62 million had not been furnished to audit.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulation etc.	Non-compliance
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(a) Management Services Circular No. 30 of 22 September 2006	The approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained
(b) Stores Management Guide of the Board	Obsolete items should be disposed or destroyed within 3 months after getting Board approval. But, obsolete stocks valued at Rs. 19.29 million remained in the stock over a period of more than two years as at 31 December 2013.

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

According to the financial statements presented, the working of the Board for the year ended 31 December 2013 had resulted in a pre-tax net profit of Rs.1,050 million as compared with the corresponding pre- tax net profit of Rs.417 million for the preceding year, thus indicating an improvement of Rs.633 million in the financial results. The increase of metered sales income significantly as compared with the previous year was the main reason attributed for the increase in the financial results for the year under review.

3.2 Analytical Financial Review

The following table gives a summary of the financial results at various stages.

For the year ended 31 December

	2013	2012	Change	
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	Rs.	Rs.	Rs.	Percentage
	millions	millions	millions	
Income	17,217	14,558	2,659	18.26
Cost of Sales	<u>(10,157)</u>	<u>(9,036)</u>	(1,121)	12.41
Gross Profit	7,060	5,522	1,538	27.85
Other Operating Income and Gains	1,195	1,586	391	-24.65
Administrative Expences	(5,831)	(5,838)	7	-0.12
Other Operating Expences	<u>(559)</u>	<u>(54)</u>	(505)	935.18

Operating Profit / (Loss)	1,865	1,216	649	53.37
Finance Income	225	214	11	5.14
Finance Cost	<u>(1,040)</u>	<u>(1,013)</u>	(27)	2.67
Profit / (Loss) before tax	1,050	417	633	151.80
Taxation	<u>(47)</u>	<u>(40)</u>	(7)	17.50
Profit / (Loss) for the Year	<u>1,003</u>	<u>377</u>	626	166.04

The following observations are made in this connection.

- (a) The gross profit of the current year has increased by 27.85 per cent as compared with the preceding year. This increase has sufficient strength to normalize the effects of increase of other operating expenditure by 935 per cent and decrease of other operating income and gains by 25 per cent.
- (b) The contribution of Rs.571,087 per employee in the year 2012 had increased by 24 per cent in the year 2013, while net profit of Rs.38,941 per employee in the year 2012 had increased to Rs.100,902 in the year 2013 reflecting 159 per cent increase.
- (c) The Board had to incur a sum of Rs.4.93 per unit of water consumed as interest on foreign loans obtained for Water Supply Projects and it was 11 per cent of the total production cost per unit reflecting two per cent decrease as against the previous year, purely as a result of the increase of production cost per unit.

3.3 Operating Review

3.3.1 Performance

(a) Financial performance

The balance of the total foreign loan obtained by the Board through the General Treasury as at 31 December 2013 for water supply schemes amounted to Rs. 36,587 million or 14.69 per cent of the total assets. As analyzed below, the loan installment in arrears as at 31 December 2013 amounted to Rs. 5,825 million and accordingly the additional interest paid for the delay amounted to Rs. 280 million.

Year	<u>Installment in Areas</u>			Additional Interest Paid due to non- Payment of Interest on due Date
	Capital Payment	Interest	Total	
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	Rs. millions	Rs. millions	Rs. millions	Rs. millions
2013	1,005	1,750	2,755	-
2012	990	682	1,672	59
2011	957	-	957	115
2010	441	-	441	106
Total	3,393	2,432	5,825	280

(b) **Production and Distribution of Clean Water**

The Board had produced 547 million cubic meters of clean water during the year 2013 and as compared with the production of 526 million cubic meters in the year 2012, which indicated 4 per cent increase. The number of water supply connections given at the end of the year under review had been 120,084, thus indicating a decrease of 13.5 per cent as compared with that of the previous year.

(c) **Non - revenue Water (NRW)**

The loss incurred by the Board due to non-revenue water which had not been identified and accounted separately, but had been brought to the accounts as a normal cost. Details of Non-revenue Water of the year under review and the last four years are given below.

Description	2013	2012	2011	2010	2009
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Water Production (Cu. m.)	547.0	525.6	490.0	469.0	449.0
Water Consumption (Cu.m.)	381.6	368.5	344.5	321.5	309.2
Non-Revenue Water (Cu.m.)	165.4	157.1	145.5	147.5	139.8
NRW as a Percentage of Water Production	30.24	29.89	24.64	31.45	31.14

The following observations are made in this connection.

- (i) Out of the quantity of water produced by the Board in the year 2013, non-revenue water represented 30.24 per cent due to leakage, unlawful connections, free supply and administrative reasons, etc. The portion of the non-revenue water in the City of Colombo in 2013 had been 47.71 per cent. In view of failure to control this situation, it was observed that an additional cost of Rs.7.15 per unit of water consumed in 2013

had to be incurred by the Board. That represented 43 per cent of the cost of production per unit.

- (ii) Even though the Board had taken certain course of action during the past period to minimize the unlawful connections and expediting the systems of repairing the temporary breakdowns of water distribution lines, the rate of non-revenue water in the current year as compared with the year 2011 had increased by 5.6 per cent.
- (iii) As there is a need for the modernization of the main water distribution systems in the City of Colombo, which is older than 75 years, special attention of the Board is drawn to the urgency for the preparation and implementation of plans for that purpose. Even though two foreign funded Projects are being implemented in this connection at present, an adequate reconstruction of the water mains had not been achieved therefrom.

The water distribution mains that should be replaced due to water leakages have not been specifically identified to date. Even though the proposals for the implementation of the several major projects have been made, their implementation is moving at a very slow pace.

- (iv) The attention of the Board for reducing the non-revenue water in the areas other than the City of Colombo was also inadequate and it was observed that the targets included in the Corporate Plan were also not realistic.

(d) Sewerage System

The need for carrying out improvements to the infrastructure facilities for the disposal of sewerage in the cities has arisen due to urbanization taken place along with the economic development of the country. Even though the supplies of such facilities are the responsibility of the Board, an adequate progress in this area was not shown in recent years. Although the supply of sewerage disposal facilities to 7 per cent of the population had been expected as a national policy, the information to check its achievement was not made available to audit.

The Chairman of the Board stated in this regard as follows.

Coverage of the sewerage disposal facilities to 7 per cent of the population expected in the national policy could not be achieved as limited number of waste water schemes been implemented due to donors are not being identified to sponsor those project.

(e) Foreign Funded Projects

A large number of Projects are being carried out by the Board for water supply and sanitation services using local and foreign funds and the following weaknesses were observed in this connection.

- (i) Most of the large scale foreign funded projects had not been completed on due dates and costs had highly escalated due to additional works and price increases resulting from the extension of the project period.
- (ii) Uniform accounting policies had not been followed for the preparation and presentation of Project's financial statements.

3.4 Matters in Contentiuos Nature

- (a) According to the Circular issued by the Board on Rechargeable Works, the profit margin should be in the range of 10 per cent to 25 per cent. However, the following Projects recorded abnormal profits.

Project	Total receipt Rs.	Cost of work done Rs.	Profit Rs.	Profit as a percentage of total receipt
00/0/EC/392/0	4,350,360	1,319,360	3,031,000	70
00/0/EE/392/0	6,703,243	1,608,018	5,095,225	76

- (b) Approval of the Board had not been obtained for the special bonus amounting to Rs.12.96 million given in the year 1999 and subsequently this amount had been shown in the financial statements as receivable. Therefore, it could be treated as an interest free loan granted to the staff.
- (c) The Board had charged 20 per cent as overhead expenditure on the total monthly salary of the Project staff and expenditure incurred on behalf of its foreign funded Projects without having special approval of the General Treasury. Total overhead charges so recovered during the year under review were Rs.234.01 million.
- (d) Even though the Greater Galle Water Supply Project had acquired a land by incurring Rs.16 million for construction of Hapugala Water Refinery Plant in 2002, that land was not utilized for the intended purpose to date due to large rock was therein.
- (e) The Non-revenue Water Project (SL P – 66) funded by the Japan Bank for International Cooperation had not been successful and as a results, that Project had subsequently been cancelled. However, a sum of Rs.354.7 million spent from the Consolidated Fund. The following observations are made in this regard.
 - (i) A sum of Rs.171.6 million spent from the Consolidated Fund and the Loan in respect of site preparation, payroll, and establishment expenditure included in work-in –progress without being treated as a loss to the Board.
 - (ii) The consultancy cost of Rs.172 million incurred for above project had been transferred to Greater Colombo Rehabilitation Project, but initial estimate cost for consultancy which were

incurred for Greater Colombo Rehabilitation Project had not been reduced by that amount. Therefore, it was doubt in the audit whether this also loss to the Board.

The Chairman of the Board had stated in this regard that *“The Consultancy fee amounting to Rs.172 Million which utilized for Greater Colombo Rehabilitation Project has been shown as work in progress under the above Project.”*

- (iii) Gas Detector purchased by the Project for Rs. 7 million had not been recognized as an asset.
- (iv) Evidence had not been furnished to audit used of Rs.4 million work-in –progress of the above project for Randiya Project.
In this connection the Chairman of the Board had stated that *“The balance Rs.4 Mn has been used for the Randiya Project and has been taken into the work in progress of the Randiya Project.”*

3.5 Management Inefficiencies

The following observations are made

- (a) The contract bearing No. SP/SIDA/RM/JE/WW/1 of the Moratuwa/ Ratmalana and Ja-Ela/ Ekala Waste Water Disposal Project funded by Swedish International Development Cooperation Agency(SIDA) awarded in 2008 had been terminated in 2013 due to bankrupt of the contractor.

The Project had not complied with the provisions in the Procurement Manual of 2006 to get the confirmation from a local Bank, at the time of accepting performance bond and retention bond from a foreign Bank in respect of the above contract. As a result, the Project had failed to en-cash the performance bond to the value of US \$ 9,065,048 and retention bond to the value of US \$ 7,957,086 furnished by the contractor. Due to the above failure, the Project had not tried to get local legal proceedings and evidence for entering into international legal proceedings were also not made available for audit. In addition to the above lapses, the loss to the Board from the above contract had not been ascertained and its responsibility had also been not fixed even at the end of July 2015.

- (b) Action had not been taken to use the water pump valued at Rs.2.13 million at the Dhambulla Water Purification Centre despite the elapse of two and half year after installation.

3.6 Assets Management

----- Resources released to other Government Institutions -----

Fifty six motor vehicles of the Board had been released to the Line Ministry and Municipal Councils in contrary to paragraph 8.3.9 of Public Enterprises Circular No. PED/12 of 02 June 2003 and Rs.1.48 million had been spent on those motor vehicles by the Board during the year under review for renewal of licences and insurances.

4. Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

Weaknesses observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of following areas of control.

- (a) Reconciliation of Control Accounts
- (b) Stocks Control
- (c) Journal entries
- (d) Project Administration and Performance Review
- (e) Receivables and Payables