

## **Water Resources Board – 2016**

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The audit of financial statements of the Water Resources Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, 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 and Section 17(2) of the Water Resources Board Act, No.29 of 1964 as amended by Act, No 42 of 1999. 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**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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**

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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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board’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 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except 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 Water Resources Board as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiency**

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Ownership of the Jeep donated by the Sri Lanka Army had not been obtained in proper manner and shown in the financial statements.

#### **2.2.2 Lack of Evidence for Audit**

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Confirmation of balances in respect of debtors and service advances aggregating to Rs.28,168,520 had not been made available for audit.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a.) Trade debtor balances of Rs. 19,790,468 had been remained outstanding at the end of the year under review. Out of that balances of Rs. 860,800 was due over 3 years. It had been informed a balance of Rs. 2,453,295 receivable from a project was not agreed.
- (b.) Advances of Rs. 21,413,361 had been obtained to provide different kind of services for 36 personals and 47 institutions by the Board. However, Action had not been taken to provide the services by the Board, even though advance of Rs. 1,139,371 had been obtained more than 01 year.

### **2.4 Non-Compliances with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed in audit.

## Reference to Laws, Rules and Regulations

## Non-Compliances

(a) Water Recourses Board Act, No. 29 of 1964 and Sections 14 (1) and 14(2) of amended Act, No. 42 of 1999

Even though advises on any or all matters stipulated in the Act. to be given by an Advisory Committee to the Board, an Advisory Committee had not been established during the year under review. As a result, attention of the Advisory Committee had not been given for 11 research studies during the year under review and research expenses thereon amounting Rs.25,003,000 had not been approved by the Advisory Committee as per the provisions of the Water Resources Board Act.

(b) Treasury Circular, No. 842 of 19 December 1978.

Registers for scientific equipment had not been maintained.

(c) Paragraph 9.7 of the Public Enterprises Circular, No. PED/12 of 02 June 2003.

Special allowances of Rs. 2,519,200 had been paid to 28 professional officers in addition to the salary during the year under review without obtaining the approval of the Secretary to the Treasury.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2016 was a surplus of Rs. 27,094,000 and the corresponding deficit of the preceding year amounted to Rs. 99,400,000, thus indicating an improvement in the financial result by Rs.126,494,000 during the year under review. The expenditure for the year had been decreased by Rs. 60,952,000 and the income on operating activities had been increased by Rs. 49,409,000 mainly attributed for the above improvement.

The analysis on financial result for the year under review with 04 proceeding years had revealed that the deficit of the financial result since year 2012 to year 2015 had been improved as a surplus during the year under review. However, after a adjusting remunerations and depreciation for non- current assets to the financial result, the contribution of the Board had been improved since year 2012 positively and it was Rs. 203,383,000 during the year under review.

### 4. Operating Review

#### 4.1 Performance

According to the Section 12 of the Water Resources Board (amendment) Act, No.42 of 1999, the main objectives of the Board are as follows.

- (i) The control, regulation, development, and prevention of pollution drainage system including the conservation and utilization of the water resources of the country.
- (ii) The formulation of national policies relating to the control and use of the water resources of the country with the objectives of the multi-purpose development and use of water resources, the short-term and long-term provision of water resources for domestic and industrial supplies, the control of salinity and any other same objectives.
- (iii) The analysis of reports based on investigations, statistical surveys, plans and proposals relating to the ground water resources of the country made by Government Institutions.
- (iv) Any other suitable measures to be taken by the Government for the proper control and economic use of groundwater.

The Board had not taken substantial measures to achieve the above mentioned objectives.

- (a) Even though research unit of 3,692 scheduled to be commenced under the 13 subjects of the Annual Budget Estimate during the year under review, research units of 2,357 had only been completed by the Board as per the progress reports, thus indicated that the 1,335 of research units ranging from 13 per cent to 100 per cent had not been implemented.

**(b) Deficiencies in Implementing Research Studies**  
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The following observations are made.

- (i) Eleven research studies projects had been commenced in order to test the quality of water and its impact on the general public at an estimated cost of Rs.587,531,400 since year 2010 to 2016. Out of that Rs. 104,952,529 had been utilized as at 31 December 2016 thereon. Even though it was scheduled to complete 08 research studies as at 31 December 2016, it had failed to complete the entire 08 projects as expected. As a result, objectives of the projects had not been achieved.
- (ii) The post research experience of the officers who responsible for the research studies had not been included under the proposals of academic and professional qualifications. Therefore, no any research studies had been supervised by a researcher who expert and experienced in the relevant research areas.
- (iii) Even though, a Research Officer required to be appointed on full time basis in order to ensure successful completion of research studies, the Board had appointed the General Manager of the Board as a Research Officer for all research studies. Therefore, research studies had not been completed within scheduled time period, due to the General Manager had to involve in research studies in addition to his normal duty.

- (iv) Financial progress of the research studies was 15 per cent to 65 per cent at the end of the year under review and delays with 01 year to 05 years. Further, reasons and cost estimates had not been submitted in extension of time for the research studies.

#### **4.2 Management Activities**

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The following observations are made.

- (a) A sum of Rs. 290,000 had been paid for fixing of an engine to a vehicle before certified by the relevant officers.
- (b) Even though the Board had used 16 vehicles which owned to other institutions shown under the financial statements, action had not been taken to vest that vehicles even up to June 2017.
- (c) Action had not been taken to vest of the lands and buildings located in several places such as head office of the Board, Workshops of Ratmalana and Vauniya and Circuit Bungalow in Anuradhapura. Further, a sum of Rs. 6,258,000 had been spent on construction of buildings and renovations of existing buildings by the Board.

#### **4.3 Idle and Underutilized Assets**

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Non-moving stocks of Rs. 231,071 and expired stocks of Rs. 3,265,967 included in the closing stocks shown in the financial statements had been identified by the Board of Survey since 2013 up to the year 2016, However, a proper action had not been taken thereon.

#### **4.4 Personnel Administration**

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The following observations are made.

- (a) Even though, 66 employees had been recruited on casual and contract basis, approvals of the Department of Management Services had not been obtained thereon.
- (b) According to the procedure of recruitments and promotions of employees, it was required to be passed the Efficiency Bar Examinations for the each post separately. However, salary increments had been awarded without conducting of Efficiency Bar Examinations and promotions had been made for higher posts.

#### **4.5 Resources of the Board Released to Other Government Institutions**

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Five officers recruited to carry out the activities of the Board had been released to the other Government Institutions since year 2015, contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Salaries and allowances of Rs. 1,354,613 for the year under review and Rs. 816,897 for the preceding year had been incurred for these employees by the Board.

## **5. Accountability and Good Governance**

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### **5.1 Internal Audit**

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Even though an Internal Audit Division had been established, an adequate number of qualified officers had not been deployed to audit of the activities of the Board which use more technological and engineering techniques.

### **5.2 Budgetary Control**

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It was observed that the budget had not been utilized as an effective instrument of management control, due to estimated and actual income and expenditure had been deviated for 98 items ranging from 20 per cent to 453 per cent.

### **5.3 Action Plan**

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Even though Action Plan had been prepared to carry out overall functions of the year 2016 by the Board, action had not been taken to prepare budget estimate and procurement plan as enable to compare with the Action Plan.

### **5.4 Unsettled Audit Issues**

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A female Geologist who went abroad for a scholarship in 2005 under condition of compulsory service period of 06 years and a security bond of Rs. 1,308,699 had been released for other institution under the condition of compulsory service of 04 years and security bond of Rs. 435,600 before completion of the compulsory service period. Action had not been taken to recover the security bonds aggregating Rs. 1,744,299 as per the agreements even at the end of the year under review, even though the officer had released permanently from the service of the Board since year 2011 on breach of the 02 agreements by the relevant officer.

## **6. Systems and Controls**

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

### **Systems and Controls**

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### **Observations**

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| (a) Accounting                        | Ownership of the assets had not been obtained by the Board and income and expenditure not accounted properly. |
| (b) Accounts receivables and payables | Effective measures had not been taken to settle.  |
| (c) Studies on research               | Action had not been taken to complete the research studies as scheduled.                                      |
| (d) Control of Assets                 | Action not taken to record the non-current assets.  |

