

National Water Supply and Drainage Board – 2017

The audit of financial statements of the National Water Supply and Drainage Board (“the Board”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 judgment, 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 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 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 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 as at 31 December 2017 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 Adherent with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) LKAS 01 - Presentation of Financial Statements

In contrary to Section 32 of the Standard, the balances of other trade creditors aggregating Rs.5,347,682 outstanding for over 03 years had been transferred to other income during the year under review without identifying the possibility for future obligations.

(b) LKAS 16 – Property, Plant and Equipment

Fully depreciated assets approximately costing Rs. 526,264,886 are being continuously used by the Board without re-assessing the useful economic lifetime of those assets and accounted them accordingly as per the provisions in the Standard.

(c) LKAS 19 -Employee Benefit

Provision for retirement benefit obligation (Gratuity provision) had not been made in the financial statements for the year under review in terms of Sections 58 and 59 of the Standard.

(d) LKAS 20 - Accounting for Government Grants and Disclosure of Government Assistance

Balances of foreign grants aggregating Rs. 14,498 million relating to 33 Projects which remained unchanged over a period of 7 to 11 years had been continuously brought to the financial statements without being amortized. The impact to the financial statements due to non-amortization could not be ascertained in audit due to unavailability of required details with regard to those foreign grants.

(e) LKAS 23 - Borrowing Cost

Borrowing cost of four (04) completed contracts amounting to Rs.3,922,080 relating to projects launched under local loans of Rs. 3.5 billion had been capitalized during the year 2016 and 2017 contrary to the provisions in the Standard.

(f) LKAS 38 - Intangible Assets

The Board had failed to review the period of amortization and method of amortization for intangible assets at least in each financial year as specified in Section 104 of the Standard.

(g) LKAS 40 - Investment Property

- (i) Carrying value of investment property amounting to Rs. 347.30 million had not been separately shown in the statement of financial position as at 31 December 2017.
- (ii) The Board had not made proper disclosures with regard to methods of depreciation, useful lives or rates of depreciation, the gross carrying amount and the accumulated depreciation at the beginning and end of the period and amount of impairment etc. as per Section 79 of the Standard.
- (iii) Income from investment property had not been disclosed as per Section 75(f) (i) of the Standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Balances aggregating Rs.167, 679,950 shown under work-in-progress in respect of 28 projects had remained unchanged over a period ranging three to nine years without being investigated and make necessary adjustments in the financial statements.
- (b) Cost of 40 completed and commissioned water supply projects totaling Rs.8,189,319,298 had remained in the work-in- progress as at 31 December 2017 without being capitalized.
- (c) A stock balance of Rs.2,421,893 shown in the book of accounts had remained at Kelaniya Region over three years without being utilized for intended purposes. Further, this stock had not been physically verified.
- (d) Although the physically verified balance of major spare parts at Trincomalee Region was Rs. 11,821,641, only the stocks worth Rs. 472,760 had been accounted.
- (e) As per physical verification reports of Jaffna Regional Office, it was observed that lease hold buildings capitalized at Rs. 5,202,608, a water tower (infrastructure) costing Rs 7,000,000 and six other assets valued at Rs.11,853 were not physically existed. However, without taking any actions, a provision of Rs. 780,532 had been made for depreciation during the year under review. Further, another water tower costing Rs.3,000,000 which was not in a usable condition had been brought to accounts and a provision for depreciation amounting to Rs. 140,000 had been made thereon without taking any action to dispose it.

- (f) It was observed that, as a practice the Board is continuously making significant adjustments to the retained profit/ (loss) by way of prior year adjustments in every year. As a result, the profit for the each year had been distorted by considerable amount. The net effect to the retained profit/ (loss) for the period from 2013 to 2016 as a result of such prior year adjustments was aggregating Rs. 631.70 million. In this ground, the possibility for making adjustments to the profit for the year under review in the forthcoming years had not been ruled out in audit. Hence, the reliability and accuracy of the financial results for the year under review could not be satisfactorily accepted in audit. The details of such adjustments made in the year under review and the previous three years are given below.

Year	Amount Debited	Amount Credited	Net effect to the Accumulated Profit
-----	-----	-----	-----
	Rs.	Rs.	Rs.
2017	388,443,514	62,528,713	322,914,801
2016	454,847,390	336,150,543	118,696,847
2015	184,251,720	192,301,771	8,050,051
2014	88,633,609	269,544,864	180,911,255

- (g) Although ten vehicles had been disposed during the year under review only cost and accumulated depreciation of three vehicles had been taken into account in calculation of profit or loss on those disposals. The impact to the financial statements due to non-consideration of cost and accumulated depreciation of other assets could not be ascertained in audit as there were no details available relevant to those assets.
- (h) It was observed that provision for impairment had not been made for debtors aggregating Rs. 77,011,565 in the year under review.
- (i) Economic Service Charge (ESC) amounting to Rs. 65,683,426 paid during the year under review had been erroneously identified as income tax expenses of the year under review without being identified as receivable. Hence, the profit for the year under review and current assets as at 31 December 2017 had been understated by similar amount.
- (j) As per the calculations made by audit, total investment income on two fixed deposits was Rs. 5,328,915. However, a sum of Rs. 4,774,759 only had been recognized as investment income in the financial statements presented relating to above fixed deposits. Hence, the interest income on investment made in fixed deposits had been understated by Rs.554,156.

2.2.3 Suspense Account

Assets, liabilities and equity balances of the Board to the total net value of Rs.793,285,170 had been transferred to a suspense account in the years 2016 and 2017 without taking actions to investigate such balances and those balances included the long outstanding loans and advances given to employees amounting to Rs.18,600,450, advances given to contractors amounting to Rs.37,129,982, deposits amounting to Rs.13,071,361 and balances in cash book

amounting to Rs.3,428,544. Accordingly, the balance of suspense account as at the end of the year 2017 was Rs.116,455 and action had not been taken to clear this account even up to the end of February 2018.

2.2.4 Un-explained Differences

The following observations are made.

- (a) According to the books of accounts, a sum of Rs. 9,161,858 had been received from disposal of fixed assets during the year under review. However, only an amount of Rs. 2,001,798 had been shown in the statement of cash flows under cash flows from investing activities. The reasons for difference of Rs. 7,160,060 had not been explained to audit.
- (b) A difference of Rs.20,470,232 was observed between the balances of debtor shown in the financial statements for the year under review and the schedule of age analysis of trade debtors submitted by the Commercial Division of the Board.
- (c) Differences aggregating Rs.12,423,545 were observed between the value of sales income shown in the trail balance submitted by Regional Offices and the adjusted balances shown in the Commercial Division of the Board.
- (d) According to the financial statements presented by the Global Partnership on Output Based AID Project, the value of the foreign grant as at 31 December 2017 was Rs.312,791,129. However, as per the financial statements of the Board, it was shown as Rs.289,218,261. Hence, an unexplained difference of Rs.23,572,868 was observed between those two figures.
- (e) Differences of Rs.45,327,376 and Rs.3,480,567 were observed when comparing the value of Property, Plant and Equipment shown in the fixed assets registers received from four regions such as Ambathale, Panadura, Kaluthara and Gampaha, and the corresponding schedules furnished to audit with the corresponding value of such assets shown in the financial statements for the year under review.
- (f) An aggregate difference of Rs.54.22 million was observed with regard to restated opening balances of four (04) ledger accounts shown in the financial statements and as per the calculation made by audit. Details are shown below.

Description -----	Restated balance as per financial statements ----- Rs.	Balance as per audit calculation ----- Rs.	Difference ----- Rs.
Other Debtors	314,319,532	287,223,783	27,095,749
Contractors Retention	3,669,249,055	3,662,866,437	6,382,618
Creditors Control	1,221,394,974	1,221,425,775	30,801
Local Loans	19,767,069,288	19,746,356,156	20,713,132

- (g) An un-reconciled difference of Rs.76.8 million was observed between the values of metered sales and bulk sales shown in the reports of Commercial Section and the financial statements.
- (h) Differences totaling to Rs. 130,712,618 were observed between the following items shown in the statement of cash flows for the year under review and the calculations made by audit. Details are shown below.

Item	As per calculations made by Audit	As per Financial Statements	Difference
-----	-----	-----	-----
	Rs.	Rs.	Rs.
Decrease in Debtors, Receivables and Deposits	17,370,079,818	17,491,801,822	121,722,004
Loss on Disposal of Fixed Assets	2,664,753	4,495,307	1,830,554
Sale Proceeds for Disposed Assets	2,001,798	9,161,858	7,160,060

- (i) A difference of Rs.13,856,197 was observed between the amount of advance granted to the contractor of Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2 shown in the ledger and schedules furnished to audit.

2.2.5 Unidentified Balances

An unidentified work-in- progress balance aggregating of Rs. 655,561,757 remained in the ledger of Kaluthara Regional Support Centre since 2004 without being identified and capitalized.

2.2.6 Lack of Evidence for Audit

The evidence indicated against each items shown below had not been furnished to audit.

Item	Value	Evidence not made available
-----	-----	-----
	Rs.	
(i) Work-in- Progress	92,429,112	Detailed Schedules of Regional Support Centers
(ii) Non-moving and slow-moving stocks	1,006,678,141	Age Analysis.

(iii) Other Debtors	294,984,707	} Detailed Schedules
(iv) Trade Creditor	833,652,596	
(v) Other Creditors	97,725,057	
(vi) Land Acquisition Advance	161,712,636	
(vii) Special Bonus Advance to Employees	9,608,060	

2.2.7 Accounts Receivable and Payable

The following observations are made.

- The balances of trade debtors, sewerage debtors and other debtors aggregating Rs.1,111 million had remained in the accounts over two years without being recovered.
- Advance granted to suppliers aggregating to Rs. 268,846 had not been settled even though one year had been lapsed.
- Although the lands had acquired, action had not been taken to recover the advances granted to acquisition of such lands amounting to Rs. 77,889,359 during the period of 2009 to 2014.
- Out of total credit balances in the creditors control account, twenty six per cent of creditors are represented for more than one year.
- Balance of other creditors amounting to Rs. 39,877,391 had remained outstanding for over 03 years without being settled. Since the Board had not maintained a database of other creditors, balances of them could not be verified in audit through confirmations.
- A land was purchased by the Board to construct a Wastewater Treatment Plant under Galle Area Wastewater Disposal Project. The Department of Valuation valued this land as Rs. 71.5 million and 30 per cent of the value equal to Rs.21.25 million had been paid on April 2014 to the land owner as advance without obtaining the ownership of the land. The land already occupied some families and then owner had removed the soil from the land after receiving the advance. The advance so paid and the penalty thereon had not been recovered even up to 30 June 2018.
- An unsettled balance of creditors control account in Kegalle Region amounting to Rs. 6,020,554 remained for over two years as at 31 December 2017.

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 Regulations etc.	Non-compliance
(a) Financial Regulation 770 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Obsolete stocks valued at Rs.13,082,076 had been included in the financial statements of the year 2017.
(b) Management Services Circular No. 30 of 22 September 2006	The approval of the Department of Management Services for the Scheme of Recruitments and Promotions of the Board had not been obtained.
(c) Economic Service Charge (ESC) (Amended) Act, No. 07 of 2017	ESC paid during the year under review had been charged to the profit of the year under review without being brought forwarded.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs. 1,882,455,821 as compared with the corresponding pre- tax net profit of Rs. 2,991,969,398 (re-stated) for the preceding year, thus indicating a deterioration of Rs. 1,109,513,577 in the financial results. The significant increase in cost of sales, administrative expenditure and finance costs were the main reasons attributed for this deterioration in the financial results.

However, the value addition of the Board for the year under review was Rs.19,789 million after taking into account the employee remuneration cost, tax expenditure and depreciation aggregating Rs.17,972 million for that year and it was Rs. 18,808 million in the previous year. Hence, the value addition of the Board had increased by Rs.981 million or 5.2 per cent as compared with the previous year.

3.2 Analytical Financial Review

3.2.1 Profitability

The following observations are made in this connection.

- (a) Although the gross profit of the year under review was decreased by 4.3 per cent, the administrative expenses had been increased by 8.74 per cent as compared with the preceding year. Hence, the operating profit of Rs.738,091,347 recorded in the year under review had declined by 58.04 per cent as compared with the preceding year.

- (b) The contribution and net profit of Rs.975,560 and Rs.289,023 respectively per employee recorded in the year 2016 had decreased to Rs. 936,538 and Rs. 182,084 or by 4 per cent and 37 per cent respectively in the year 2017.
- (c) The revenue of Rs.43.93 per unit of water consumed in the year 2016 had decreased by 3 per cent in the year 2017, while production cost of Rs 46.53 per unit of water consumed in the year 2016 had increased by 1.2 per cent in the year 2017.

3.2.2 Significant Accounting Ratios

Certain significant accounting ratios for the year under review and preceding 04 years are given below.

Year	2017	2016	2015	2014	2013
-----	-----	-----	-----	-----	-----
Gross Profit Margin	40.50	42.82	39.19	39.47	41.35
Net Profit Margin	7.61	12.68	5.53	7.62	5.87
Current Ratio	4.14	5.97	4.48	1.76	1.29
Liquidity Ratio	3.72	5.33	3.80	1.35	0.98
Total Asset Turnover (number of times)	0.05	0.06	0.06	0.07	0.07

According to the above information key financial ratios of the Board had shown an unfavourable condition as compared with past four years. The net profit margin for the year under review had drastically decreased by 5.07 per cent as compared with the previous year and Current Ratio and the Liquidity Ratio had been decreased by 1.83 per cent and 1.61 per cent respectively due to increase of foreign loan payable in forthcoming financial year.

4 Operating Review

4.1 Performance

4.1.1 Planning and Review

The following observations are made in this regard.

- (a) The weakness within the business and opportunities and threats in the external environment of business had not been properly evaluated before preparing the Corporate Plan for the period of 2016-2020.
- (b) The annual budgeted estimates, annual procurement plan, human resources development plan, plan for loan repayment and internal audit plan had not been included in the Action Plan as per the Pubic Finance Circular No. 01/2014 of 17 February 2014.
- (c) Seven large scale water supply projects and three large scale sewerage projects scheduled to be commenced during the year 2017 as per Action Plan, had not been commenced even up to 31 July 2018.

- (d) As per the Action Plan it was expected to increase total pipe water supply coverage and sewerage coverage up to 52.3 per cent and 2.4 per cent respectively out of total population at the end of the year under review. However, the actual coverage was only 49.2 per cent and 2.07 per cent respectively as at the end of the year 2017.

4.1.2 Production and Distribution of Clean Water

Information relating to production of treated water and its cost and number of new connection given for the past few years are as follows.

Year	2017	2016	2015	2014
-----	-----	-----	-----	-----
Production (cum) in Million.	678	649	600	575
Unit cost (Rs)	35.49	34.61	34.41	31.79
Number of new connections	2,219,172	2,092,471	1,947,473	1,825,837

The following observations are made in this connection.

- (a) The Board had produced 678 million cubic meters of treated water during the year 2017 as compared with the production of 649 million cubic meters in the year 2016, which indicated 4.5 per cent increase. Similarly unit cost of production in the year under review had been increased by 2.5 per cent as compared with 2016. The main reasons for this increase were significant increase in staff cost, energy cost, chemical cost and maintenance cost during the period from 2012 to 2017.
- (b) According to the target set out for the year under review it was expected to provide 2,323,669 connections as at the end of the year by providing 231,198 new connections (includes accumulated shortfall of connections from 2014 to 2017) during the year under review. However only 126,701 new connections had been provided during the year under review and it indicates a decrease of 8.71 per cent as compared with that of previous year.

4.1.3 Non – Revenue Water (NRW)

Details of non-revenue water of the year under review and previous five years are given below.

Description	2017	2016	2015	2014	2013	2012
-----	-----	-----	-----	-----	-----	-----
Water Production (Cu. m.)	678.9	649	600.14	575.00	547.0	525.6
Water Consumption (Cu.m.)	507.5	483	436.27	410.92	381.6	368.5
Non-Revenue Water (Cu.m.)	171.3	166	163.87	137.07	165.4	157.1
NRW as a percentage of Water Production	25.23	25.58	27.30	28.53	30.24	29.89

The following observations are also made in this connection.

- (i) The value of NRW had been brought to the accounts as a normal cost instead of being separately accounted. Further, the average NRW was around 1/3 of the total Water Production during the period from 2012 to 2014 and it had been reduced to ¼ in the year under review. However, the NRW still makes a significant loss to the Board due to leakage, unlawful connections, free supply and administrative inefficiencies etc. The portion of the non-revenue water in the City of Colombo in 2017 was 43.14 per cent and no remarkable effort had been taken to reduce the NRW in City of Colombo.
- (ii) As there is a need for the modernization of 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 major foreign funded Projects costing Rs.30,124 million are being implemented in this connection at present, an adequate reconstruction of water mains had not been achieved there from.
- (iii) Greater Colombo Water and Waste water Management Improvement Investment Programme-Project (01) which mainly focused on reduction of Non-Revenue Water in City of Colombo from 49 per cent to 20 per cent had been scheduled to be completed on 31 December 2016. However, it had not been completed even by 30 September 2018. Further, the physical progress as at 31 July 2018 was only 46.18 per cent.
- (iv) Greater Colombo Water and Waste water Management Improvement Investment Programme-Project (ii) was scheduled to be commenced on 03 September 2014 and completed on 30 June 2019. However, main contract activities had not been commenced even as at 31 December 2016 and only 5.61 per cent physical progress had been achieved as at 31 December 2017.
- (v) The water distribution mains that should be replaced in order to reduce the water leakages have not been specifically identified to date. Even though the proposals for implementation of several major projects have been made, their implementation is moving at a very slow pace.
- (vi) The attention of the Board for reducing the NRW in the areas other than the City of Colombo specially in Town East Colombo (TEC) North, Gampaha, Rathnapura, Hambanthota and Bandarawela was also inadequate and hence it was observed that the targets included in the Corporate Plan were also not realistic.
- (vii) It was further observed that, the total cost of production could be reduced by Rs.240.46 million if the Board is able to reduce the amount of NRW by 1 per cent.
- (viii) Considerable deviations were observed between the actual and targets percentages of Non-Revenue Water in the Regional Support Centers (RSC). Details are shown below.

Non-Revenue Water 2017 (as a percentage)

Name of RSC	Target	Actual	Variance {favourable/(adverse)}
Western Central	34.5	33.8	0.7
Western South	26.4	20.6	5.8
Western North	23.0	19.3	3.7
Southern	26.0	22.7	3.3
Uva	20.3	25.9	5.6
Central	22.0	22.6	(0.6)
Sbaragamuwa	23.8	30.3	(6.5)
North Western	10.0	13.0	(3.0)
Eastern	13.3	22.8	(9.5)
North Central	15.2	16.9	(1.7)
Nothern	21.0	26.6	(5.6)
Island Wide	27.3	25.2	(2.1)

4.1.4 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 supply of such facilities is the responsibility of the Board, an adequate progress in this area was not shown in recent years.

4.2 Implementation of Foreign Funded Projects

A large number of water supply and sanitation (sewerage) projects by utilizing local and foreign funds were carried out during the year under review and in the previous years. The observations made with regard to implementations of those projects are described in following paragraphs.

4.2.1 Ambathale Energy Saving Project

The following observations are made.

- (i) The total project implementation period of this project was 63 months and out of that, 39 months had been elapsed as at 31 December 2017. However, the overall physical progress as at that date was only 7.7 per cent due to poor performance of the contractor.
- (ii) The main contract of replacing old pipe line for 9 kilometers with 1200mm diameters capacity of new pipes was scheduled to be completed on 04 May 2018. However, only 500 meters had been laid as at 04 May 2018.

4.2.2 Greater Colombo Water and Wastewater Management Investment Programme – Project 01

The following observations are made.

- (i) According to the progress reports of the Programme, the overall physical and financial progress as at the end of the year under review had remained at 37.41 per cent and 47.39 per cent respectively. The works under the main contracts of system rehabilitation for reduction of NRW in Northern and Eastern Regions of the City of Colombo had shown slow progress of 45 per cent and 27 per cent respectively as at 31 December 2017. The delays in adopting of procurement process, changing of trenchless method to open trench method for pipe laying work and poor performance of the contractors etc. had attributed to slow progress on implementation of the activities of the programme.
- (ii) According to the bid document of the System Rehabilitation for NRW reduction in North part of the city of Colombo was planned to be implemented through pipe relining and pipe bursting method (Trenchless method) instead of open trench method of pipe lying. However, after having awarded this contract, the contractor had submitted the proposals to change the Trenchless method and approval was granted by the variation committee instead of being obtaining the prior approval from the Board as per Section 3.1 and 13.2 of the Bid documents. It was observed that the proper design had not been done by considering the actual site conditions and present situations of water supply network. As a result of changing the main scope of the contract, an opportunity was provided to the contractors who had not submitted bidding under the trenchless technology.

4.2.3 Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 2

The following observations are made.

- (i) This Project consisted 13 Components and as per the progress reports of the Project, the overall physical progress of the Components of the Project as at the end of the year under review was at 5.61 per cent due to delays in awarding contracts, poor performance of the contractors, delay in obtaining approval from Colombo Municipal Council and poor project management etc. Further, the contracts for construction of buildings for Area Engineer's Office at Pamankada, rehabilitation of plumbing systems in the government owned apartments and procurement of 02 lots of operational equipment for Regional Support Service Centre –Western Central had not been awarded even up to 31 December 2017.
- (ii) Further, the completion dates of contracts awarded by the Project under the Components of System Rehabilitation for Non-Revenue Water for the Western and Southern Region of City of Colombo and consultancy services for Community Mobilization Awareness and Behaviour Changes had been determined beyond the date of completion of the Project on 30 June 2019.

- (iii) It was further observed that 504 days had been spent to complete the procurement process of contract for NRW reduction in the City of Colombo even though the contract had been approved by the Lending Agency as an advanced procurement. Further, the realistic estimates had not been prepared by the National Water Supply and Drainage Board at the initial stages based on a proper longitudinal surveys and as a result, the length of estimated pipe laying works of 99 kilometers under this Component had been significantly increased up to 194.5 kilometers
- (iv) According to the bid document of the contract, the product conformity certificates on the use of materials and details of key persons involving for evaluation purposes required to be submitted by the selected bidder as at the closing date of the submission of bids. However, the contract under the Component of the System Rehabilitation for Non-Revenue Water Reduction in Western Region of the City of Colombo had been awarded to a bidder who had not submitted respective Certificates even up to the date of the contract agreement signed on 01 December 2016. Further the activities under the contract had shown slow progress of 9.57 per cent as at 31 December 2017. In addition to that, the works under said contract for Hydraulic Modeling and detailed design of 18 District Metering Areas and 02 Feeder Mains had not been completed even up to 30 March 2018.
- (v) The works under the Hydraulic Modeling for Feeder Mains System and detailed design of 09 District Metering Areas under the contract for System Rehabilitation for Non-Revenue Water Reduction in Southern region of the City of Colombo awarded on 10 January 2017 had also not been completed even up to 30 March 2018. Further, 15,894 houses subjected had been surveyed as at 31 December 2017, out of the target of 35,000 houses to be surveyed. As a result, out of 155 kilometers of works expected to be completed before 31 December 2019, only 02 kilometers of pipe laying works have been completed.
- (vi) It was observed that the progress reports prepared on public awareness programs for water users consisted only with number of such programs conducted during the year under review. The details of such programs conducted under each package as at 31 December 2017, recommendations and solutions for identified issues etc. had not been included therein. Hence, there is no proper mechanism was in placed to evaluate the changes on the pattern of water usage after attending the awareness programs.
- (vii) The land owned to the Urban Development Authority acquired by the Project on 02 September 2015 on lease basis for the use of the Area Engineer's Office at Pamankada had been transferred to the Colombo Municipal Council during the August 2017 without taking action to recover the advance amount of Rs. 10 million paid thereof. In addition to that, another advance of Rs. 2.11 million paid during the year under review on architectural designs of the office building had become fruitless, due to transferred the respective land.
- (viii) The Executing Agency of the Project had appointed the Project Director for the post of Deputy General Manager (Eastern Province) of the National Water Supply and Drainage Board on acting basis, contrary to the requirements in Section 2.3.2 of the Circular No.01/2016 of 24 March 2016 issued by the Department of Management Services.

4.2.4 Global Partnership on Output-based Aid Project

The following observations are made.

- (i) Out of total agreed grant of US\$ 5.08 million equivalent to Rs.583.66 million, only a sum of US\$ 2.31 million equivalent to Rs.340.76 million or 45.47 per cent had been utilized as at 31 December 2017 after lapse of 06 years from the commencement of the activities of the project. Therefore, the possibility of utilization of the balance amount of allocation within the remaining period of the project is in doubt due to the poor performance of the contractor.
- (ii) According to the project document, the project consisted with 7 components and out of that, component for On-site Sanitation Improvements had shown a slow progress of 26.52 per cent as at 31 December 2017 due to delay in awarding contract and poor performance of the contractor. Further, as per the progress report of the project, the overall physical progress of the components of the project as at the end of the year under review remained at 91.6 per cent, even though 100 per cent of physical progress was expected to be achieved as at 31 December 2017.
- (iii) The contract for component of on-site sanitation improvements was awarded on 16 May 2016 and planned to supply and install 3,785 Treatment units and Construct 1135 toilets at Dehiwala, Moratuwa, Kolonnawa and Ja-Ela areas by 31 August 2017. However, only 556 Installation of Treatment units or 15 per cent and 205 Toilets or 18 per cent respectively out of planned had been completed as at 31 December 2017, due to delay in awarding the contract, shortage of adequate labour force in production site situated at Kuliypitiya and poor performance of the manual fabrication works of Treatment units etc. Subsequently, it was decided to re-award the same contract to four (04) other contractors on 15 May 2018, in order to expedite the contract works. However, the main contractor had also failed to supply the treatment units of daily requirements of the new contractors by 17 July 2018 even after taking over the part of the installation.
- (iv) The Project had also planned to provide 950 On-site Sanitation Facilities and Construct 285 Toilets in Kolonnawa Divisional Secretary area. Accordingly, the project had incurred a sum of Rs. 2,135,939 for bond guaranties, insurance, maintenance of furniture etc. as at 31 December 2017. However, it was revealed that the project had failed to provide any benefits to the beneficiaries.
- (v) The installation part taken over in part (iii) of the above had been awarded to four (04) contractors at a total contract value of Rs.153.30 million. However, engineers' estimate of the above installation contracts was Rs.117.92 million. As a result, the new contracts had been awarded by incurring Rs.35.38 million exceeding the original estimate. Further, it was observed that the additional expenses will have to incur by Government and NWS&DB since it will not be able to reimburse from the donor agencies.

4.2.5 Kandy North - Pathadumbara Integrated Water Supply Scheme

The following observations are made.

- (i) The contract had been awarded on 16 June 2015. However, the loan agreement had been signed on 22 December 2017 after delay of 2 1/2 years.
- (ii) The contract value of this project after reducing the scope (excluding provisions and price variations) was Rs.24,790.24 million and it had exceeded by 53 per cent of the engineer estimate of Rs.16,169.35 million (before reducing scope) of the Board.
- (iii) As per the Engineer Estimate of the Board, the amount estimated to be incurred on foreign exchange was USD 26,388,500. However, the amount included in the contract value of foreign contractor was USD 192,336,418. Hence, the amount planned to be incurred on foreign exchange had been exceeded by 629 per cent.
- (iv) As per Section 5.3.9 (b) of Procurement Guidelines, the bidders are required to submit justifications to be eligible for foreign currency payments. However, the following items had been included in the foreign currency estimates prepared by the Board without obtain such justifications.

Item	Amount provided in Estimate	Amount provided as Custom Duty
-----	-----	-----
	USD	Rs.
Breaking & Removal of Granite	1,470,033	12,905,856
Cutting 27 Trees	229,608	2,003,499
Removal of Roots of 135 Trees	73,080	637,425

- (v) Further, an amount of Rs.31.92 million had been included in the estimate to construct two (2) houses with an extent of 483 square meters per house for the use resettlement families.

4.2.6 Grater Kandy Water Supply Project

The following observations are made.

- (i) In contrary to the objectives of the project, the contractor had remitted a sum of Rs.18,600,000 to the Head Office on 18 March 2016 on the request made by the Board for purchase of a jeep for the use of the Chairman of the Board. However, this fund was not used for the purchase of vehicle. Hence, the contractor had charged a sum of Rs.980,000 as attendance fee.

- (ii) In order to reduce Non revenue Water, a Water Fittings Testing Laboratory, Water Meter Testing Laboratory and a Wet Well Testing Unit had been constructed and handed over to the Board on 29 February 2016. However, these Units had not been utilized for the intended purposes even up to 31 July 2018.

4.2.7 Jaffna Killinochchi Water Supply and Sanitation Project

The following observation is made.

A sum of Rs. 3.45 million had been paid on 11 June 2014 to the National Housing Development Authority to acquire lands to the construction of Nawathkuliya Water Tower and Office Building. However, the ownership of the lands acquired had not been transferred to the National Water Supply and Drainage Board even as at 31 December 2017.

4.2.8 Dry Zone Urban Water and Sanitation Project

The following observations are made.

- (i) As per the paragraph 18 of Schedule 05 of the Loan Agreement, respective local authorities are responsible to conduct regular monitoring of the quality and quantity of treated effluent, the quality of the water in to which the effluent discharged and the bacteriological quality of dried sewerage sludge. However, no evidence had been made available to prove the implementation of monitoring mechanism by the local authorities in the areas which the activities of the Project implemented on effluent management effectively.
- (ii) As per the Cabinet of Ministers decision dated 05 April 2005, action should be taken jointly by the Ministry of City Planning and Water Supply and National Water Supply and Drainage Board to implement a suitable mechanism to monitor the activities of the Project closely. However, suitable mechanism had not been implemented by both parties even as at 31 December 2017.
- (iii) The National Water Supply and Drainage Board had signed a Memorandum of Understanding in 2014 to renovate 03 irrigation tanks and revamping of lands in Pathiyakulam and Katkulam for paddy cultivation with the Assistant Commissioner of the Department of Agrarian Development in Vauniya without obtaining the concurrence of the Department of Agrarian Development. However, the Assistant Commissioner had not worked accordingly and therefore the work had been delayed. As a result, the Project had to pay additional sum of Rs.21.8 million as compensation and other infrastructure facility in the previous years, out of the contribution received from the Government of Sri Lanka.
- (iv) The Project had taken action on 19 May 2017 to procure 02 motor vehicles at a cost of Rs.16.95 million under the approval of the Lending Agency for the use of Regional Supporting Centers in the Northern and North Western Provinces. However, respective motor vehicles had been assigned to the offices of the Southern Region of the National Water Supply and Drainage Board which are not involved to implement the activities of the project.

4.2.9 Monaragala, Buttala Water Supply Project.

In line with the Memorandum of Understanding entered into between the National Water Supply & Drainage Board and the Contractor on 30 November 2015, works valued at Euro 500,000 had been undertaken by the Board to carry out as a sub-contract and out of that provision, only Euro 400,000 (Rs.62.81 million) had been remitted to the Board and the balance of Euro 100,000 (Rs.15.70 million) had been treated as profit margin and overhead by the contractor without actively mediating in the activities.

4.2.10 Greater Dambulla Water Supply Project

The following observations are made.

- (i) Although the it was initially scheduled to complete the above project within 30 months, that is by 05 September 2014 having inaugurated the same on 06 March 2012, the contractor had failed to complete the project by that date and as such, an extension for an additional period of 43 months had been granted in 05 instances from 06 September 2014 to 31 March 2018. Nevertheless, due to the poor performance of the contractor, contract had not been completed even by 30 June 2018. However, two other contracts of Polgahawela, Pothuhera and Allawwa Integrated Water Supply Project and Pannala, Makandura & Kuliypitiya Water Supply Project worth USD 199.36 million had been awarded to the same contractor on 26 November 2015 and 02 December 2016 respectively.
- (ii) Further, a sum of Rs.1,964.32 million and Rs.677 million had been incurred as loan installments and interests as at 31 December 2017 relating to loan obtained by the Government for this project and an expenditure of Rs.151 million as the staff and overhead cost relating to the maintenance of the project office during the delayed period had to be additionally incurred as at 31 December 2017.

4.3 Delayed Projects

A considerable delay had been observed with respect to seven foreign funded projects due to delay in land clearance, environmental and resettlement issues, delay in contract awarding, low quality of PE pipes supplied by the contractor etc. Details are as follows.

Project	Estimated Amount	Date of Commencement	Date to be Completed	Period of Extension	Number of days Delayed
-----	-----	-----	-----	-----	-----
	Rs. Million				
Global Partnership on Output Based AID Project	1,559	27/12/2011	31/12/2015	31/12/2017- 31/12/2018	1095

Greater Dambulla Water Supply Scheme Stage – 01	9,593	06/03/2012	05/09/2014	06/09/2014 - 31/03/2018	1302
Greater Rathnapura Water Supply Project	4,493.66	24/07/2013	24/07/2015	24/07/2015 - 29/02/2016	220
Greater Kandy Water Supply Project	7,148	30/03/2007	30/09/2012	30/09/2007 - 20/07/2017	1753
Greater Colombo Waste Water Management Project	13.410	18/12/2009	31/12/2014	31/12/2014 - 31/12/2017	1095
Dry Zone Water Supply and Sanitation Project	19,165	13/11/2009	30/06/2013	30/06/2013 - 31/12/2018	2009
Greater Colombo Water Rehabilitation Project	4,785	27/11/2007	31/01/2012	31/01/2012 - 20/06/2017	1965
Eastern Province Water Supply & Development Project	7,702.25	20/03/2010	20/12/2013	20/12/2013 - 31/12/2015	741
Kandy city Waste Water Management Project	17,278	03/02/2010	10/10/2017	Not extended	385

4.4 Local Bank Loan Water Supply Projects

4.4.1 Matara District Water Supply Connection Enhancement Project

The following observations are made.

- (a) The project had been commenced in order to provide 1,300 water supply connections in Matara District.
- (b) The contract for supplying UPVC pipes, fittings and accessories had been completed on 14 March 2015 and UPVC pipes and fittings amounting to Rs.70,766,819 had been supplied thereon. However, the contract for laying UPVC fittings and accessories had been awarded for the period from 19 December 2014 to 01 July 2015, had not been commenced even as at 31 August 2018.
- (c) Pipes and fitting purchased had been utilized for the activities not related to the objectives of the project.

4.4.2 Pipe Laying under Kandy North Water Project – Phase 01

Two contracts valued at Rs.77,705,705 and Rs.94,032,235 for pipe laying had been awarded to a contractor during the month of September 2014 and December 2014 respectively and the scheduled date to be completed were August 2015 and July 2015 respectively. However, these projects had not been completed even after elapsed of 02 years even though the advances aggregating Rs.33,677,822 was paid to the contractor on 15 September 2015.

4.5 Management Activities

The following observations are made.

- (a) An allocation amounted to Rs.235 million had been provided for the small and medium size water supply and drainage Projects Matara and Bandarawela Districts. Out of that only Rs.15.8 million or 7 per cent had been utilized as at 31 December 2017.
- (b) Although an allocation of Rs.500 million was provided for emerging small township (small & medium) water supply projects, only Rs.271.40 million or 54.3 per cent had been utilized as at 31 December 2017.
- (c) Further, a sum of Rs. 250 million had been provided for augmentation of Trincomalee in the year under review. However, no expenditure had been incurred thereof.
- (d) Due to insufficient space in warehouses in Mawanella, goods had been stored in and outside the warehouse premises without any security. Further, water meters in the warehouse were damaged by termites.
- (e) According to audit test check carried out in Kegalle and Kaluthara Regions, a slow progress was observed in relation to handling of consumer complaints.

4.6 Operating Inefficiencies

Due to poor debt servicing capacity of the Board, value of outstanding balance of loans amounting to Rs. 63,612,471,380 which obtained for the projects commenced after the year 2014 had been transferred to government equity account from the year 2015 to year 2017.

4.7 Idle and Underutilized Assets

The following observations are made.

- (a) According to audit test check, slow-moving stocks balance totaling Rs. 304,192,322 in respect of 26 warehouses had remained for a longer period of time which represents 40 per cent of the total stock balances of those warehouses.
- (b) It was observed that non-moving stocks valued at Rs.539,183,367 and slow moving stocks valued at Rs.467,494,774 had remained in stocks as at 31 December 2017, and it represent 7 per cent and 6 per cent respectively of the total stocks value of the Board.

- (a) After spending of Rs.166,993,899 on construction of laboratories for Greater Kandy Water Supply Project, the project had been abandoned due to failure in recruitments.
- (b) Greater Galle Water Supply Project had acquired a land by incurring Rs.16 million for the construction of Hapugala Water Refinery Plant in 2012, and the land was not utilized for the intended purpose to date due to large rock was found after the acquisition of the land.

4.8 Matters of Contentious Nature

The following observations are made.

- (a) Out of stocks in transit worth Rs.352,151,303 as at 31 December 2017, the stocks valued at Rs.35,713,013 had been shown as stocks in transit over a period of two years without being investigated.
- (b) Although stocks received and issued should be adjusted to the stock balance before stock verification, the net debit balances totaling Rs.521,015,622 and net credit balances totaling Rs. 284,249,255 had been adjusted to the stocks balance after the stocks verification.
- (c) According to the information provided by the Board, 11 vehicles had been released to the Ministry City Planning and Water Supply at the end of the year under review. However, Secretary to the Ministry of City Panning and Water Supply had informed me that 3 vehicles bearing numbers, PA-8942, PE-5461 and PC-5865 had only received to the Ministry.
- (d) An aggregate debit balances of Rs.1,244,968,958 were observed in debtors collection control account as at 31 December 2017.

4.9 Resources of the Institution given to other Government Institutions

The following observations are made.

- (a) In contrary to the provisions in Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, 71 employees had been released to the line Ministry by 31 December 2017 and the Board had paid Rs 87,840,261 as salaries on behalf of those employees from December 2015 up to 31 December 2017. Nevertheless, only 28 of the above employees had actively contributed to the duties of the Ministry. Further salaries for those employees paid by the Board had not been reimbursed by the Ministry.
- (b) Out of the above employees, 40 employees had been recruited on contract basis as Coordinators. However, the post of Coordinator is not in the approved cadre of the Board.

- (c) Further, 11 motor vehicles were also released to the line Ministry during the period of January to December 2017 and a sum of Rs.1,093,567 had been incurred for repairs and licenses of those vehicles.

4.10 Staff Administration

The following observations are made.

- (a) The Board had not taken actions to fill 817 vacancies remained at the main operational level posts such as the Managers / Engineer (Mechanical), Engineer (Electrical), Engineer (Civil), Middle Level Technical (ML- T) Clerical and Allied Categories, Other Skilled Grade etc. even up to the end of the year under review.
- (b) Action had not been taken to obtain the approval for Scheme of Recruitments and Promotions from the Department of Management Services, as specified in the Management Services Department's Circular No. 30 of 22 September 2006.
- (c) According to the information furnished by the Board, the Board had released 140 various categories staff to the foreign funded water supply and sewerage projects from the year 2000 to 2016. Salaries and other allowances paid by the Board had been reimbursed by those Projects to the Board. 02 Deputy General Managers, 18 Assistant General Managers, 28 Chief Engineers 41 Engineers, 40 Engineering assistant 3 Sociologist were among them.
- (d) 223 employees had been recruited on contract basis at the end of the year under review and its included a civil engineer and a quantity surveyor.
- (e) 508 employees had been recruited as multiple skilled trainees in the year 2015 without the approval of Secretary to the Treasury and Department of Management Services and 491 employees of them had been confirmed in the service during the year 2016. Further, a sum of Rs.563.5 million had been paid as salaries for them for the year 2016 to 2018.
- (f) Apart from the number of employees recruited as stated above, 1,628 employees had been deployed on service contract agreements in the Board and a sum of Rs.449 million had been paid for them for the year 2017.

4.11 Apparent Irregularities

The following observations are made.

- (a) A cash fraud of Rs.246.66 million committed at Trincomalee, Kelaniya and Ampara Regions during the period of 1999 to 2006 had not been recovered from the persons responsible even up to 31 December 2016.

- (b) A fraud of Rs.1,145,235 committed at Kaluthara Region by a meter reader during 2017 had not been recovered from the persons responsible up to 31 August 2018.

5. Achievement of Sustainable Development Goals

Upon being aware of the Agenda - 2030 on Sustainable Development Goals of the United Nations, the Board had identified the sustainable development goals such as achieve universal and equitable access to safe and affordable drinking water for all and achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situation in 2030. However, no action had been taken to identify the other goals, targets, and milestones coming under the scope of the Board. Further, no internal circulars or guidelines had been issued by the Board in order to implement the Sustainable Development Goals.

6. Accountability and Good Governance

6.1 Internal Auditing

The following observations are made.

- (a) 16 vacancies are existed in the Internal Audit Section including an Assistant General Manager, 5 Chief Internal Auditors, three Internal Auditors and an Engineer.
- (b) Even though a large number of water supply and sanitation services projects using local and foreign funds are carrying out by the Board, adequate number of staff had not attached to the technical audit section of the Board.
- (c) Adequate internal audit had not been conducted with regard to several project activities for the year under review

6.2 Procurement and Contract Process

6.2.1 Procurements

The following observations are made.

- (a) As per Section 4.2.1 (a) of the Government Procurement Guidelines a Master Procurement Plan had not been prepared by the Board.
- (b) 370 computers valued at Rs.39 million purchased during the year under review had not been included in the Procurement Plan prepared for the year 2017.
- (c) Approval of the Board of Directors had not been obtained for the detailed Procurement Plan prepared for the year 2017.
- (d) Procurement Plan had not been reviewed and updated periodically.
- (e) As per the test check done by audit it was observed that in some instances liquidated damages had not been charged from the supplier in terms of the provisions in the letters of offering.

7. Budgetary Control

Significant variances ranging from 11 per cent to 57 per cent was observed between the budgeted and actual income and expenditure of the Board for the year under review, that indicating that the budget had not been made use as an effective instrument of management control.

8. Systems and Controls

Weaknesses 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. Special attention is needed in respect of following areas of control.

Control Area -----	Observation -----
(a) Accounting	Failure to reconcile the control accounts, work-in-progress balances and accounting data with inter-departmental data.
(b) Assets Management	(i) Duplication of same fixed assets in different Regions. (ii) Not reviewing and reinstating the value of fixed and intangible assets. (iii) Not capitalizing the fixed assets even though the projects had been completed. (iv) Failure to investigate about the work in progress balances remained unchanged for a long period of time. (v) Failure to complete board of survey on time. (vi) Releasing of own vehicles to other institutions. (vii) Failure to acquire land prior to commencement of project activities.
(c) Inventory Control	(i) Un-reconciled the physically verified balances together with ledger balances. (ii) Prevailing long outstanding stocks in transits and unmoving and slow moving stocks in the stores (iii) Failure to maintain integrated stock control system. (iv) Procuring material excessively. (v) Store materials in warehouses with no safety and adequate space.
(d) Project Administration and Performance Review	(i) Failure to complete the projects in expected time period and extending the time period of most projects without valid reasons. (ii) Unable to properly carry out the feasibility studies. (iii) Non-compliance with Government Procurement Guidelines (iv) Cost had highly escalated due to time extension and weaknesses in fund utilization.

- (v) Awarding contracts with contract amount highly deviated from engineer estimates.
- (e) Accounting of Rechargeable Scheme Advance received for the rechargeable schemes remained in the custody for long a period without being set off relevant expenditure incurred.
- (g) Personnel Management
 - (i) Releasing of human resources to other institutions without required authority.
 - (ii) Recruitment of employees without obtaining approvals from General Treasury.
 - (iii) Promoting employees, based on forged certificates.
 - (iv) Delays in taking disciplinary actions against employees.