

## Head 332 – Department of National Community Water Supply

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Department of National Community Water Supply for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No. 19 of 2018. The summary report including my comments and observations on the Financial Statements of the Department of National Community Water Supply was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 and the Annual Detailed Management Audit Report related to the Department of National Community Water Supply was issued to the Accounting Officer on 30 May 2019 in terms of Section 11 (2) of the National Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Department of National Community Water Supply as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### 1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer in relation to the Financial Statements

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The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal and Regulatory Requirements

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

- (a) Since there was no need for the Department to prepare of financial statements for the preceding year, it could not be stated that the financial statements presented was consistent with the preceding year.
- (b) Since there was no requirement for the Department to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Performance

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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<p>i. In terms of the section 7 (vi) of the State Accounts Circular No. 267/2018 dated 21 November 2018 the statement of financial performance should be prepared based on statistics included in the financial statements of General Treasury. As per the financial statements of the treasury the recurrent expenditure was Rs.134,549,494. However it had been shown as Rs.134,519,149 in the statement of financial performance with a decrease of Rs.30,345</p>	<p>The financial Statement should be prepared in terms of State Accounts Circular No.267/2018 dated 21 November 2018.</p>	<p>The expenditure on goods &amp; Services amounting to Rs.30,100,634 included in ACA-F format of the statement of financial performance is correct account with the book of accountsof the Department. Difference of Rs.30,345 was due to expenditure on warrants issued by this department and directly debited by the Department of Railways Sri Lanka through monthly summaries.</p>
<p>ii. Due to the observation in (a) above although the imprest account balance should be Rs.212,902,954. it had been shown as Rs.212,933,299 with an increase of Rs.30,345</p>	<p>The financial Statement should be prepared in terms of State Accounts Circular No.267/2018 dated 21 November 2018.</p>	

## 1.6.2 Statement of Financial Position

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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i. As per the statement of financial position and ACA 6 format the value of vehicles & equipment included in the property, plant & equipment as at 31 December 2018 was Rs.32,217,000. As per the information furnished to audit the value of motor vehicles owned by the department was Rs.37,300,000. Accordingly vehicles & equipment amounting to Rs.5,083,000 had not been included in the financial statements.	The value of fixed assets not taken to financial statements should be included in the financial Statements accurately.	It is not clear the source of information for audit and the information shown in the financial statements is accurate.

## 1.6.3 Statement of Cash flows

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Following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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(a) As per the information furnished to audit Rs.629,335,630 should have been recognised as cash flows from operating activities as such , Rs.479,106,000 as treasury imprest, Rs.4,658,795 as other receipts, Rs.145,570,835 as receipt of deposits. However Rs.601,330,417 had been shown as cash flows from operating activities with a decrease of Rs.28,005,213 in the statement of cash flows.	The financial Statement should be prepared in terms of State Accounts Circular No.267/2018 dated 21 November 2018.	All the values shown in the statement of cash flows are in accordance with the instructions for the preparation of financial statement in State Account Circular No.267/2018 dated 21 November 2018, and the oral instruction given through telephone calls received from Director General of State Accounts as per section 05 of that Circular. Hence I was advised to get clarification from the Director of State Accounts, for further inquiries regarding the difference mentioned in the Auditor General's report.
(b) A sum of Rs.134,544,949 had been shown as cashflows incurred for	As above	

operating activities in the statement of cash flows. However as per information furnished to audit a sum Rs.623,076,304 had been incurred as such Rs.157,652,792 for personal emoluments & operating expenses, Rs.242,937,612 for transfers, Rs.217,486,100 as repayment of deposits. Accordingly a difference of Rs.488,531,355 had been remained.

- (c) Although no values had been shown as cash flows the investing activities, as per information furnished to audit furnished recovery of advances amounting Rs.4,895,338 had not been shown under that.
- (d) A sum of Rs.280,362,796 had been incurred for the purchase and construction of physical assets and for the acquisition of other investments under cash flows incurred on investing activities, However as per information furnished to audit only Rs,11,154,665 had been incurred as Rs.78,383 on aquisition of physical assets and Rs.11,076,282 for the payment of advances. As such a difference of Rs.269,208,131 had been remained.

**1.6.4 Non-maintenance of Registers and Books**  
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During the audit test checks, it was observed that the following security register had not been maintained by the department and vehicle log books were not keep up to date.

<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Chief Accounting Officer</b> -----
(a) <b>Security Register</b> ----- A security register containing the names of officers required to give securities had not been maintained.	A security register should be maintained in terms of section 895 (1) of the	Application were received from this Department of state Accounts for keeping

Financial Regulation.

securities but the public Administration circular No.01/99 dated 1999.04.09 which was received with the application was for District Secretaries and Government Agents.

**(b) Vehicle Log books**

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The department vehicle log books had not been up dated. The details of the vehicles, the amount of the fuel being burned, the payments for repairs of motor vehicles etc. had not been completed with regard to each vehicle.

Vehicles log book should be updated and maintained in terms of the Financial Regulation 1645 (a).

The short comings pointed out with regards to vehicle log books were corrected.

**1.6.5 Non-compliance with Laws, Rules and Regulations**

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The non-compliances with the provisions in Laws, Rules and Regulations observed during the audit test checks are analysed below.

	<b>Observation</b> -----	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
<b>Reference to Laws, Rules and Regulations</b> -----	<b>Non-compliances</b> -----	-----	-----
<b>Financial Regulation</b>			
(a) Financial Regulation 571(3)	Deposits aggregating Rs.4,842,839 in relating to general deposits of department had been retained in the deposit account for more than two years without taking action to settle or credit to the government revenue.	Should act in accordance with financial Regulation 571	Payments are now being made to the relative persons, out of fund retained in the Deposit Account for more than two years.
(i) Financial Regulation 104	More than one year has elapsed since the loss of Rs.189,358 worth of computer equipment at the offices of Padukka and Nuwra Eliya officer in charge of Department. However investigations into the matter had not been yet begun. Determination of losses for the	Should act in accordance with the financial regulations with regard to losses and damages.	Both cases have been filed in the Nuwara-Eliya and Avissawella Magistrate Courts, the responsible persons could not be detected in terms of financial regulation 104, until the decisions will be made.

accident which occurred on 10 November 2018 at the office of Anuradhapura officer in charge had not been completed by the end of the year under review.

Regular co-ordination with the respective police station is ongoing. Investigations in to the accident in Anuradhapura under section 104 of F.R commenced in March 2019. Preliminary investigation in to the accident has been completed in terms of financial regulations and final reports are to be obtained from the appointed committee.

(b) Public Finance  
Circular

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Section 3.2.3 and 3.2.4 of the circular No. 05/2016 dated 31 March 2016

Action should be taken to report excesses and deficiencies and take actions before the 15<sup>th</sup> day of April in every financial year in accordance with the report of board of survey. However it had not been done so even by 30 April 2019

Should act in accordance with the public finance circular dated 31 March 2016

As per the section 3.2.2 of Public Financial Circular No.5/2016 dated 31 March 2016, the date of completion of the physical Board of Survey for the year 2018 is 31 March 2019. The board of survey had been completed before that date. However due to the prevailing unfavorable situation in the country, it had only been delayed to submit the reports to the department by the District officers. However by now Board of survey reports had been received.

(c) Finance Ministry's  
Circular

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Section 07 of the Asset Management Circular No.01/2017 dated 28

Details of all assets owned by the institution should be submitted to the comptroller

should act in accordance with the provisions in the circular.

In terms of the section 07 of the circular of the Ministry of Finance and Mass Media No.

June 2017.

General's Offices. However as of 20 May 2019, that has not yet been done.

01/2017 dated 28 June 2017, the report of assets purchased during the year 2018 was submitted to the Comptroller General on 21 May 2019.

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
<b>(a) In avian the provisions made</b>		
The total provision made amounting to Rs.3.20 million for three capital expenditure & two recurrent expenditure objects had been saved entirely without utilizing.	Expenditure estimates should be prepared correctly in terms of the Financial Regulation 50	<p>i. 332-1-1-1303-11 According to the lease agreement signed by the building owner and the Department, it had been agreed to bear maintenance cost of more than Rs.50,000 by the building owner and less than that is to be incurred by the Department. But since there are no expenses below Rs.50,000, in as building maintenance cost had been saved.</p> <p>332-1-1-1703-11 Due to non submission of vouchers for the payment under language allowance policy for 2018, the provision had been saved.</p> <p>ii. These provision had been saved, due to inability of the treasury to finance capital nature expenditure.</p>



(b) **Excess provisions made available**

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Due to excess provisions had been made for 09 recurrent expenditure objects, after utilizing out of above provisions the saving were in range of 20 percent to 50 percent out of provisions made available.

Expenditure estimates should be prepared correctly in terms of the Financial Regulation 50

- i. Although vouchers were made, sufficient imprest had not been released in December 2018. Hence the provisions had been saved due to inability to make payments.
- ii. 231 vacancies in the staff the careful issuance of stationary to district offices , absence of bills, vacancies in executive officers, though bills were made insufficient imprest received in 2018 had been mentioned as reasons for savings.

**2.2 Issue and settlement of sub imprest**

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Following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) In terms of the Financial Regulations 371 (5) the sub imprest issued should have been settled within 10 days after completion of activity. However sub imprest issues in 7 instances aggregating Rs.112,500 had been settled with a delay ranging from 2 months to 10 months.	Comply with section 371(5) of the Financial Regulation	All district offices and executive staff officers have been informed by my letter No.DNCWS/FD/01/14 dated 2018.12.19 to settle the sub imprest received immediately. By now steps have been taken to settle the advances immediately after completing the work.

### 3. Operational Review

#### 3.1 Planning

Following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
As per the Public Finance Circular No. 2014/01 dated 17 February 2014, an action plan for the year 2018 had not been prepared.	An annual action plan should be prepared in terms of the circular.	As per the circular No. 2014/01 dated 2014.02.17 a specific format for the preparation of the action plan has not been provided and items to be included is mentioned. Hence, as per the instructions given by the Secretary of the Ministry of Policies and Economic Affairs of his letter No. MN PEA/PLN/APG/15 dated 2015.10.14 and the Cabinet decisions taken on 20.09 2015 for the preparation of annual action plan, the annual action plan for the year 2018 had been prepared using prescribed formats and a copy of it had also been delivered to you. In that format it had been included matters as specified in the circular 2014/01

#### 3.2 Abundant Projects

The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
At the end of the year under review, 222 water supply projects implemented by Community Based Organisations in 18 districts registered under the departments were inactive.	Actions should be taken to reactivate the inactive water projects.	This department was established in 2014 to regulate these projects. Most of the water projects registered under the department have not been followed by proper maintenance and operational procedures and the department has identified and remedied these problems. Accordingly, most of the water projects have been renovated and upgraded within the department's allocation of Rs. 200

million and allocations of other projects. Allocations have been made for the inactive water projects as well as the maintenance of existing water projects. The relevant development work has also been carried out. Since all these projects are implemented by another party and are under the supervision of the department in 2014, it is impossible to rectify all the issues immediately.

### 3.3 Delays in project implementation

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Following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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33 projects costing Rs. 57,767,542 implementing under the Community Based Organization (CBO) and commenced by the Department of National Community and Water Supply had not been completed by 31 May 2018.	Action should be taken to complete the projects as planned.	All these 33 projects have been approved for implementation in 2018 and unable to complete by 2019 and hence differed to the year 2019. These are the projects that have been prepared and executed in accordance with the Annual Action Plan for the year 2018, and are approved to be executed on the basis of the savings allocated to the project. Therefore, these projects could not be completed in the year 2018 and arrangements have been made to complete them in 2019.

### 3.4 Annual Performance Report

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Following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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In terms of the Public Finance Circular No. 402 of 12 September 2002, Performance	Should act in accordance with the Public Finance	Action has been taken to translate the 2017 performance report into three languages. I will take actions to table it

report for the year under review should be tabled by Department in Parliament within 150 days after closure of financial year. Annual Performance Reports for the year under review and the previous year had not been tabled in Parliament even by 31 May 2019.

Circular.

in Parliament within the next three weeks.

### 3.5 Assets Management

Following observations are made in this regard.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<b>Unused Vehicles</b>		
(a) It was revealed in the physical inspection conducted on April 25, 2019 that four vehicles owned by the department were parked in the department premises without running.	Action should be taken to auction the pooled vehicles if it is impossible to repair.	Actions will be taken to repair one vehicle in four vehicles and deploy for running, take a decision regarding another vehicle after the completion of the procedure under Financial Regulation 104. Action will be taken to dispose two vehicles after receiving the decision of the technical officer and resolving the problem of disposal of the other vehicle.
<b>Use of vehicles owned by other government institutions</b>		
(b) According to the information submitted to audit by the Department of National Community and Water Supply, seventeen (17) vehicles belonging to other institutions including thirteen (13) vehicles of the Community Water Supply and Sanitation project belonging to the Ministry of Housing and Construction had been used during the	Action should be taken to take over these vehicles properly or release them to the relevant institutions.	12 vehicles were belonging to the community water supply and sanitation project and they have been handed over to the Department after establishing the Department of National Community and Water Supply. Arrangements will be made to take over those vehicles to the Department. There are three vehicles under the name of the Ministry of Housing, Construction and Public Utilities and they were handed over to the Ministry by the Community Water Supply and Sanitation Project at the time.

year under review.

Those vehicles had been handed over to the department again as the successor of that project and arrangements will be taken to acquire those vehicles also.

Arrangements have already been made to acquire two vehicles belonging to the Lunawa Project and the National Water Supply and Drainage Board to the Department.

(c) **Idle Bank Accounts**

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Under the Gazette notification of the Democratic Socialist Republic of Sri Lanka No. 1881/6 dated 22 September 2014, functions of National Community Water Trust had been transferred to Department of National Community Water Supply. As per the accounting records of National Community Water Trust as at 31 December 2014, a fixed deposit account of Rs. 1,794,454 and a current account of Rs.682,554 had been maintained. It was observed that it had been remained idling from that date up to 31 May 2019 without transferring to the department or crediting to the government revenue. Further as per information gathered by audit, it was observed that the balance of fixed deposit account and current account as at 31 December 2018 was Rs. 2,441,575 and Rs.837,323 respectively.

Immediate actions should be taken to transfer the balance of these accounts to the Department and credit to the Government Revenue.

I have sought advice from the Ministry of City Planning and Water Supply and Higher Education on acquiring the balance of fixed deposit account under National Community Water Trust and I will act accordingly after receiving advices in future.

### 3.6 Security of public officers

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
----- In terms of the section 128 (1) (n) of Financial Regulations of Democratic Socialist Republic of Sri Lanka Officers who are bound to keep securities are required to keep securities in accordance with the applicable law and regulations. However the relevant officers of the Department had not done so and the Security Register had not been updated in terms of section 891(1) of Financial Regulation.	----- Should act in accordance with financial regulations.	----- Applications were received from the Department of state Accounts for keeping securities. However the public Administration circular No.01/99 dated 1999.04.09 which was with the application was for the District Secretaries and Government Agency.

### 4. Achievement of sustainable Development Goals

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Following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
----- “Water for all, sustainability management and confirming the receipt of sanitation” had been identified as sustainability development goals of the Department of National Community and Water Supply. However any internal circulars, guidelines and workshops had not been conducted by the department.	----- The department should work towards achieving the Sustainable Development Goals.	----- Although conducting internal workshops and issuing circulars on Sustainable Development Goals had not been done, departmental officials have participated in awareness programs conducted by the Ministry of City Planning, Water Supply and Higher Education and made

all sectors aware of the  
circulars issued by the  
Ministry of Finance  
of Sustainable  
Development.