

1.1 Qualified Opinion

The audit of the financial statements of the Water Resources Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

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 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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 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 skepticism 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of

information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board ;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non - compliance With Reference to Applicable Standards	Comment of the Management	Recommendations
(a) Although the Divisional Secretary has filed the case against the Board for non-payment of taxes relating to the premises of the Head Office that owned to the Thimbirigasyaya Divisional Secretariat, The contingent liabilities that could be arisen from that case had not been disclosed in the financial statements in accordance with Sri Lanka Public Sector Accounting Standards No 08.	If there are any contingent liabilities for this in the year 2021, action will be taken to disclose in the financial statements as per the accounting standards.	Action Should be taken to comply with Sri Lanka Public Sector Accounting Standards No. 08.
(b) Although the previous year's profit balance should have been adjusted when correcting the errors of the previous year as per No. 3 of Public Sector Accounting Standard, due to expenditure incurred on building repairs in previous year of Rs.208,872, was accounted as an expense of the year, the deficit of the year under review had been over stated by Rs.208,872.	Agreed	Action Should be taken to comply with Sri Lanka Public Sector Accounting Standards No. 03.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendations
<p>The laboratory building of the North Central Regional Office, which had constructed at a cost of Rs.13,261,884 in 2018 and had been handed over to the Water Resources Board by the Dam Protection and Water Resources Management Project, had not been stated in the financial statements.</p>	<p>This situation has arisen due to non-accounting of buildings constructed under various grants on lands which have not been taken over by the Board and that were on rent and lease basis. However, action will be taken to note in this regard, when presenting policies in the year 2021.</p>	<p>Accounts should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.</p>

1.5.3 Unauthorised Transactions

Description of Unauthorised Transactions	Comment of the Management	Recommendations
<p>25 water pumps, 10 generators and other related equipment amounted to Rs.7,154,105 that remained idle without using since 03 years at Rathmalana warehouse had been handed over to the Irrigation Department on 03 September 2020. Approval of the Board of Directors had not been obtained to provide the equipment to the Irrigation Department.</p>	<p>This had discussed regularly at the Irrigation Audit and Management Committee Meeting and the Water Resources Board Audit and Management Committee Meeting and, a committee had been set up as per its instructions and action has been taken to provide these equipment to the Ministry of Irrigation on the recommendation of the committee. The board approval had not been obtained in this regard and arrangements are being made to obtain covering approval in the future. Arrangements had been made to provide these equipment to the Ministry of Irrigation in a very accurate manner and if necessary such information can be submitted.</p>	<p>Formal approval should be obtained for disposal of assets owned by the institution.</p>

1.6 Receivable and Payable Accounts

1.6.1 Receivable

Audit Observation	Comment of the Management	Recommendations
At the end of the year under review the debtor balance was Rs.6,683,106. And, of which Rs.2,320,606 was more than one year old.	Letters confirmation the balance of the debtor had been sent to all the institutions. Meanwhile, the balance of Rs.2,320,606 which has more than one year old as at 31 December 2020 has already been focused on settling these debtor balances due from two government institutions as soon as possible.	Debt balance recovery should be done up to date.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendations
At the end of the year under review, through Rs.18,897,123 had been paid as service advance, of which Rs.1,116,328 of relevant services had not been provided for more than one year.	The service advance account balance of Rs.1,116,328 which was over one year has been reduced to Rs.379,592 as at 30 April 2021. Attention has been paid to settle the existing balance for 04 institutions.	Action should be made to account for the advance income on which the relevant work had been completed.

1.7 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to the Laws, Rules, Regulations etc.-	Non- compliance	Comment of the Management	Recommendations
(a) The Extraordinary Gazette No.2010/23 of 16 March 2017	(i) Approval of the Water Resources Board had not been obtained for constructing cultivation wells for agricultural purposes with a diameter of 4 meters or more and tube wells required for commercial, agricultural and industrial purposes. Even though all institutions engaged in constructing tube wells should be registered in the Board, some institutions had not been registered as such.	Measures have been taken to improve the following sections in order to regulate and maintain the ground water level activities as per the gazette notifications No. 2010/23 dated on 16 May 2017. The Water Resources Board Act has been amended and submitted to the Ministry as the provisions of the Water Resources Board Act are not sufficient to take legal action in cases of non-compliance with the regulations.	Action should be taken comply with the rules and regulations.
	(ii) The Board had not issued quality reports on the water source relevant for all projects obtaining underground water of 30,000 litres per month for commercial	Accordingly, steps are being taken to obtain Cabinet approval. As there were vacancies in cadre, the works could not be done properly. Therefore, necessary steps are being taken to fill the vacancies. Thereby, arrangements have been made to carry out the public responsibility for	Action should be taken comply with the rules and regulations.

	agriculture or industries.	water resource management island wide and sustainably. Arrangements have been made to collect information on ground water sources in coordination with the District Secretary, Divisional Secretary, Water Supply Board and the Department of Community Water, taking into account the existing state machinery.	Action should be taken comply with the rules and regulations.
(iii)	Action had not been taken to obtain the relevant analytical report to the Water Resources Board for approval as per section 3 of the Gazette.	Accordingly, the data is currently being received by the Water Resources Board. Will analyze these data and identify tube wells used for cultivation, commercial, agricultural and industrial purposes. Accordingly, arrangements have been made to maintain further regulatory activities properly.	Action should be taken comply with the rules and regulations.
(iv)	According to Article 2 of the Gazette Notification, data on daily water volumes should be maintained, but some private institutions had not been done so and the Board had not taken any legal action in this regard.		
(b)	The Extraordinary Gazette No.2010/23 of 16 March 2017 i. Order No. 2	All institutions engaged in the construction of tube wells should be registered with the Water Resources Board and as per the instructions of the Board, and the relevant	- do - Action should be taken comply with the rules and regulations.

	institutions should install water meters themselves, but 256 institutions which obtain ground water from tube wells had not installed water meters.		
ii. Order No. 3	<p>If any government or local government body or Non-Government Organization or Institution or individual, engaged in the water bottling industry and the beverage production uses a natural water source or groundwater for their production, the water samples from that water source are tested every 6 months by a government approved laboratory</p> <p>Although the relevant analysis report had to be submitted to the Water Resources Board for approval, it had not been done.</p>	- do -	Action should be taken comply with the rules and regulations. .

iii. Order No. 5	Only seven factories of the 22 bottled water factories registered with the Board had inspected, although they were required to enter and inspect establishments that manufacture or service using natural water sources or groundwater.	- Do -	Action should be taken comply with the rules and regulations.
(c) Section 2.1 of Chapter II of The Establishment Code of the Democratic Socialist Republic of Sri Lanka	07 officers had been recruited in years 2017 & 2018 for 06 posts without preparing & approving scheme of Recruitment by the entity.	Recruitment procedures have been prepared for these 06 posts and action will be taken to obtain the approval of the Department of Management Services after obtaining the approval of the Board of Directors.	Action should be taken comply with the regulations of the Establishments Code.

2. Financial Review

2.1 Financial Results

The operational result of the year under review was a deficit of Rs.12,059,000 and, in contrast, surplus of the previous year was Rs.41,201,000. Accordingly, deterioration of Rs.53,260,000 was observed in the financial result. The decrease in revenue of the year under review by Rs.80,254,000 compared to the previous year revenue has been reasoned mainly for this deterioration.

3. Operating Review

3.1 Uneconomic Transaction

Audit Observation

For preparing a building plan for the construction of a laboratory on the premises of the head office, a sum of Rs.300,000 had paid to the Central Engineering Consultancy Bureau (CECB) in year 2015. The laboratory building had not constructed due to the board had not ownership the land on which the head office is located. Accordingly, the relevant expenditure had been idled.

Comment of the Management

A sum of Rs.300,000 spent on the plan to construct a laboratory at the Head Office premises has been brought to the notice of the Board of Directors for further action to be taken due to the suspension of the work.

Recommendations

With regard to idle spending, management should pay attention.

3.2 Management Inefficiencies

Audit Observation

- (a) According to the action plan, the Board had planned to conduct 500 agricultural well surveys during the year under review, but by the end of the year no work had been completed.

Comment of the Management

At the request of the Director General of the Mahaweli Authority of Sri Lanka, the Water Resources Board has prepared and submitted a project proposal for the construction of cultivation wells in designed by the same institution the Mahaweli Rambaken Oya Zone (Ampara District) to maintain agricultural activities even during the dry season and to establish a special agricultural zone. With the aim of completing this project proposal, it was planned to

Recommendations

Arrangements should be made to carry out the tasks in accordance with the action plan.

include this in the Board's 2020 Action Plan and to conduct 500 groundwater surveys for the construction of agricultural wells. However, the project could not be carried out due to the Mahaweli Authority not providing the relevant funding to the Board as planned in 2020.

- (b) Action had not been Taken to take over the Land where Ratmalana site and warehouse located, Land where Anuradhapura Circuit Bungalow and Vavuniya Divisional Secretariat located that were used by Water Resources Board for a longer time.

The land where the Rathmalana site and warehouse are located has been handed over to the Urban Development Authority by the Irrigation Department.

As arrangements have been made to construct a housing complex, it has been agreed to provide an alternative land, for the Board.

Action should be taken to take over the assets of external entities used by the Board.

Anuradhapura Circuit Bungalow has been transferred to the Board on a long term lease basis for a period of 30 years.

is not maintained on the Vavuniya land As a regional office, building and temporary buildings are constructed and maintained to accommodate the staff during the drilling of tube wells in the Vavuniya area.

- (c) As per the decision of the Cabinet of Ministers dated 06 December 2016, a policy decision was taken to transfer 40 perches of land at Denzil Kobbekaduwa Mawatha, Battaramulla belonging to the Urban Development Authority

The land where the Board's head office is located is also owned by the government. Instead, the Urban Development Authority (UDA) informed the Chief Assessor that the 40 perch land at Denzil Kobbekaduwa Mawatha in Battaramulla would be given to the Board

When the board enters into agreements with outside parties, it should be done so as to receive maximize benefits.

to the Water Resources Board for a period of 30 years on the basis of a nominal lease determined by the Chief Government Assessor. The Chief Assessor had fixed the annual rent for the land on October 20, 2020 at Rs.2,700,000. However, the Institute had been decided to pay the annual rent when the opportunity has arose to pay less than the annual rent as a nominal rent as per the Cabinet decision.

on an annual nominal lease basis on a 30-year lease basis and to the relevant annual rent would be paid.

- (d) The policy decision had been given by the Cabinet in 2016 to construct a Central Data Centre under the Active Groundwater Survey Project under the Special Credit Assistance from the Netherlands. Accordingly, the construction of the building could not be completed in 2021 as per the contract agreement of the project due to the delay in entering into a lease agreement for the construction of buildings on a land in Baththaramulla belonging to the Urban Development Authority. However, due to having to pay as per the Trunkey contract without constructing the building, However, due to the

The construction of the building for the relevant Battaramulla land was heuge period delayed due to several time discussions with the Urban Development Authority. Later, the Minister in charge of the subject and the Secretary to the Ministry involed came to an agreement on the taxes to be paid for the land and it took some time to get the Cabinet approval to construct the building on this land.

Currently, As the preliminary work has been completed, the approval of the Cabinet Sub-Committee has to be submitted to the Board of Directors.

The delay in the arrival of foreign agency officials in Sri Lanka due to the COVID 19 epidemic has also affected these activities.

Act in accordance with the agreements and the Board should work to maximize benefits.

without construction of the building have to pay as stipulated in (Trunkey contract) the agreement, there is a risk that the amount of Rs.95 million agreed as the construction cost of the laboratory will has to be paid without the construction of the building.

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| (e) | According to the board of survey report conducted in the year under review, out of the inventory of Rs.1,010,809 that prevailed more than 05 years in stores without issuing, out of which, the inventory of Rs.770,060 has been remained in storage without dispose. | The value at Rs.1,010,809, remaining stocks without issue as mention have already been taken to action to dispose of Rs.394,088 value of machinery spare parts. Other machine parts have to be retained as they had not available for purchase on the market. In addition, disposable materials from the remaining stationery, chemicals and groundwater survey stocks will be identified and further action will be taken accordingly. | Without issuance, long-term stocks in the warehouse must be identified and take the necessary action. |
| (f) | It had been identified that items value of Rs.118,000 in the Palai office building had been misplaced on 16 October 2018. Its relevant investigation had not been carried out so far. | Investigations had been completed and the matter has been referred to the Board of Directors for recovery from the responsible officers. Additional information requested by the Board of Directors will be forwarded to the next Board of Directors. | A formal inspection should be carried out on regarding the missing items and the necessary steps should be taken to recover the loss. |

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendations
<p>(a) The Board has not equipment for heavy metal analysis and agrochemical testing of groundwater and for the detailed analysis of water for unidentified long terms kidney problems in the North Central Province, the Dam Protection and Water Resources Management Project spent by Rs.13,261,884 in 2018 to construct a laboratory, it's equipment had provided at a cost of Rs.95,095,235. To analyse the presence of agrochemicals in groundwater from that equipment the GC-MS / ms device, which was purchased at a cost of Rs.32,555,430 million, had inactive situation from the date of supply. The supplier company being to informed during the warranty period, no action had been taken to repair. Investigation had not been carried out to identify that parties responsible for it.</p>	<p>Training sessions for other high-tech equipment, including GC-MS / MS equipment, were held in January 2019 and July 2019, and these devices were already operational. During the annual service conducted in December 2020 by this equipment supplier, their service reports confirmed that some parts of the equipment were faulty situation. It had pointed out that it was necessary to take appropriate action to rectify the error of the device by referring it to accores the management.</p> <p>At presently except for the analysis of the defective part of the equipment, that other agrochemical groups can be analysed through this equipment, the institute of equipment supply has pointed out. Accordingly, the management has planned to rectify of the faults in that part of the equipment with the recommendations of the appointed technical committee and the approval of the board of directors. After the recruitment of Water Analyst posts, it is planned to carry out the analysis work in the categories where maintain the equipment can be analysed.</p>	<p>Assets should be utilized efficiently and effectively.</p>

(b) Although 10 officers of the Board have been trained on the use of laboratory equipment, only two officers have been attached to the service. The nature and maximum and minimum capacities of the tests that could be performed by the laboratory had not predicted. Also, action had not been taken to inform about the laboratory facilities provided by the laboratory. In the past 18 months, only 950 tests of heavy metals in groundwater had been conducted.

Due to the difficulties in carrying out the required analytical work due to the shortage of staff in the laboratory the project and commercial analytical work was carried out through the maximum as possible laboratory staff although the analysis has not carried out under the maximum capacity of the equipment. Once recruited for the post of Water Analyst, these activities will become more efficient. the process of establishing this laboratory as a laboratory in the North Central Province is being carried out under SLAB standard under the German Technical Cooperation Program. By that, the relevant parties are being made aware of this laboratory by conducting training sessions and workshops on the skills development of the laboratory staff in the North Central Province.

Assets should be utilized efficiently and effectively.

3.4 Vehicle Feet Management

Audit Observation -----	Comment of the Management -----	Recommendations -----
Value at Rs.1,419,000 had been entered an agreement into 18 September 2019 for the Supply & Installation of Vehicle Tracking Solution for 30 vehicles belonging to the Board. By the end of the year under review, no action had been taken against the contractor for non-compliance with the agreement.	So far no any payment of money has been made and as the relevant equipment installation institute had not acted as requested have been informed to remove the installed equipment.	Necessary works as per the contract agreement should be performed by the contractor himself.

4. Accountability and Good governance

4.1 Budgetary Control

Audit Observation

The budget had not been used as a financial control instrument of the Board and the expenditure had been exceeded the expenditure limits allocated by the budget presented for the year under review. Expenditure in excess of the limits had cost without the approval of the Board of Directors ranged from 16 per cent to 840 per cent.

Comment of the Management

Overall there had remain control over administrative costs, supply consumption, and other operating expenses. The increase in contracting services and maintenance costs has been shown as a result delay in the announcement of building rental cost estimates,. However, as far as possible further attention has been paid to cost control.

Recommendations

Budget expenditure should not exceed the estimated limits.