

## **Water Supply and Sanitation Improvement Project -2021**

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The audit of financial statements of the Water Supply and Sanitation Improvement Project for the year ended 31 December 2021 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 the Schedule II, Section II (C) (3) of the Financing Agreement No. 5685 – LK dated 06 November 2015 and Article 4.09 (b) of the General Conditions of the Credit and Grants of the International Development Association dated 31 July 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreement of the project the Ministry of Water Supply is the Executing and Implementing Agency of the Project. The objectives of the Projects are to increase access to piped water services and improved sanitation in selected districts and to strengthen the capacity of associated institutions. The activities of the Project are implemented under 04 components namely, rehabilitation and expansion of urban, rural and estate water supply and sanitation schemes, strengthening of the capacity of the Department of National Community Water Supply, building of sector capacity through training and water quality mapping and Project management and administration. As per the Financing Agreement, the estimated total cost of the Project was US\$ 183.90 million equivalent to Rs.27,590 million and out of that US\$ 165 million equivalent to Rs.24,750 million was agreed to be financed by International Development Association. The balance amount of Rs.2,840 million is expected to be financed by the Government of Sri Lanka and through Community contribution. The project had commenced its activities on 07 December 2015 and scheduled to be completed by 31 December 2021. However, the date of completion of the activities of the Project had been extended up to 31 March 2022 and 31 December 2023.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2 of my report, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for 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 opinion.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 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 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 internal control of the Project.
- 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 those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiencies

The following observations are made.

No.	Accounting Deficiency	Amount	Response of the Management	Auditor's Recommendations
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		Rs. million		
(a)	According to Section 38 of the Project Appraisal Document, the community contribution of the project amounting to Rs.49.06 million had not been identified and disclosed in the financial statements.	49.06	We will calculate and capitalize community contribution in 2022. Further, some of the projects had not been capitalized and hence community contribution was not calculated.	Community contribution should be identified for the completed projects.
(b)	The loan interest amounting to Rs. 877.16 million and service charges amounting to Rs. 539.56 million according to the Department of Foreign Resources, as at the end of the year under review had not been disclosed in the financial statements.	1,416.72	This policy has been suspended by treasury from the year 2018 and also it does not show in our treasury vote reports.	Action should be taken comply with the provisions of State Account Circular No.230/2013 dated 29 November 2013.
(c)	A sum of Rs. 60.3 million to be reimbursed for employees released for project activities by the Board. However, an amount of Rs. 30.5 million had only been identified as payable to National Water Supply and Drainage Board. Hence, the current liabilities had been understated by Rs.29.8 million in the financial statements.	29.8	During the year of 2021 we have reimbursed salary of NWSDB employees for few months. We have already accrued the balance expense in 2021.	Salaries paid by the National water Supply & Drainage Board for employees released to the project should be accounted accurately in the books of accounts of the Project.
(d)	Two Rural Water Supply Projects valued at Rs.21.3 million which was completed and commissioned during the preceding years had been capitalized as at 31 December 2021.	21.3	The final bill is not submitted. Due to this matter it is not capitalized.	Value of completed water supply projects should be capitalized.

## 2.2 Unsettled Balances

No.	Description	Amount Rs. million	Period unsettled	Management Response	Auditor's Recommendation
(a)	Contractor Retention	283.64	Over 3 years	Retention has been released of some projects and others will be released during this year.	Action should be taken to settle the contractor's retention after the defect liability period.
(b)	Short term deposits kept in external institutions.	88.81	Over 3 years	Even though the project is completed, we can claim those deposits only after 2 years' time.	Short term deposits should be recovered without delay.

## 2.3 Non- Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendations
<b>Financial Regulations of Democratic Socialist Republic of Sri Lanka</b>			
(i) Regulation 170 (3)	Liquidated damages amounting to Rs.8.45 million deducted from 4 contractors during the year under review and the preceding year had not been credited to consolidated fund even as at 31 May 2022.	We will send it to government revenue once the final payment is done.	adhere to the provisions in the financial regulations.
(ii) Regulations 245 and 257	As per random test check audit, it was observed that an amount equivalent to Rs.178.5 million had been paid for 23 payment vouchers without certifying.	We accept it and we will correct it.	adhere to the provisions in the financial regulations.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2021			Management Response	Auditors Recommendation
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-----	-----	Percentage	Percentage	-----	-----	-----
<b>Rehabilitation and expansion of urban, rural and estate water supply and sanitation schemes</b> -----	<b>Urban Water Supply Schemes</b> -----					
	Pambahinna Water Supply Schemes	100	82	854	Expect to complete whole work in August 2022.	(From a to y) i. Management should take actions to complete the contract works within the given target dates.
	Mulankavil Water Supply Project	100	90	693	Another three months' time needed for completion.	ii. Time extensions should not be given for unacceptable reasons of the contractors and delay damages should be deducted in the events of poor performance of the contractors as per contract agreement.
	<b>Rehabilitation and Rural Water Supply Scheme</b>					
	Orubediwewa Water Supply Scheme (Phase 1)	100	92	592	It is completed and need to commission soon after pump installation at intake	iii. Contracts should not be awarded to the poorly performed contractors.
	Diyathalawa Water Supply Scheme	100	31	935	Terminated. Performance bond is forfeited and advance is recovered.	iv. New contracts should be
	Orudediwewa Water Supply Scheme (Phase II)	100	95	480	Connections will be started after flushing. water to be received. This work can be started in end of July.	

Yatiella Water Supply Scheme	100	70	277	Physical progress is 75%. awarded for terminated contracts as soon as possible.
Welogapola Water Supply scheme	100	75	228	There is a delay due to contractor performance, fuel and material shortage due to current situation of the country.
Buluwana Water Supply Scheme	100	88	511	House connection programme is ongoing. Treatment plant is commissioned.
Construction of Dombagammana Rural Water Supply Scheme	100	97	574	Delay due to community objections.
Sangilipalama Rural Water Supply Scheme	100	65	360	Substantial delay due to contractors' poor performance.
Hope Water Supply Scheme	100	70	337	Delay in work progress as protest from consumers
Bulathkohupitiya Integrated Rural Water Supply Scheme	100	80	499	Connections programme will be started in end of July 2022. Expect to complete in three months.
Peelakandura Rural Water Supply	100	75	1463	Commissioned. Treatment plant completed. Progress is 80%.

Thanduwan Water Supply Scheme	100	75	358	There is a slight delay in supply in electricity. House connection programme completed in another 3 months.
Kalmadunagar Rural Water Supply Scheme	100	80	1058	We are now in a decision to terminate the contract.
Jeyapuram Water Supply Scheme	100	90	644	Connection programme will be started in near future.
Iyakakachchi Water Supply Scheme	100	85	902	There is a slight delay due to contractors' poor performance.
Thirimurukkandi New Water Supply Scheme (intake)	100	57	847	Contract terminated.
Nelumwewa Rehabilitation Water Supply Project	100	75	178	Almost completed.
<b>Public Sanitation</b>				
Construction of Public Convenient Centre and Welimada Vijaya Maha Vidyalaya Sanitation Improvement (School) in Badulla District	100	92	323	Construction delay due to price exclamation, lack of materials and material transportation problem etc.
<b>Indigenous Sanitation</b>				
Construction of Indigenous Toilet at Rathugala in Monaragala District	100	60	505	-Do-

**School Sanitation**

Construction of Sanitation Facilities at Nivithigala, Keeragala Schools, Sarvodaya Piriwena, Kolonna and Water Supply Schemes in Jethawanarama Wana Senasuna, Nakandala & Sannasgama CBOs in Ratnapura District	100	65	201 Contract Terminated.
Construction of School / Hospital Sanitation Facility in Ratnapura District	100	60	247 -Do-
Construction of School Sanitation in Mullaithivu District	100	90	260 Up to now 95% of construction completed.
Construction of School Sanitation in Killinochchi District- Package 01	100	35	197 Lack of sanitary materials and material transportation problems construction getting slow after month of August.



### 3.2 Delay in commencement of Projects

#### Audit Issue

Rs.4.6 million had been given as advance to a contractor for supply and delivery of PE, Upvc, pipes & fittings and accessories for rehabilitation schemes in Rathnapura district. However the contractor had failed to commence the supplying even as at 31 December 2021.

#### Management Response

Materials of PE pipes and fittings are supplied. Upvc pipes are not yet supplied due to material scarcity in market.

#### Auditor's Recommendations

District Managers should monitor the progress of the supplying contracts in order to complete the contracts within scheduled time frame. Delay charges should be deducted from poorly preformed contractors as per conditions of the contracts.

### 3.3 Contract Administration

The following observations are made.

#### No. Audit Issue

(a) It was observed that extension of time had been given to the contractors who engage in ten water supply projects ranging from two to seven instances for the same project even exceeding the original contract period and allowing to keep the mobilization advances amounting to Rs.343.46 million with the contractors for more than two year without being utilized for activities of the project

#### Response of the Management

Poor performance of the contractor, community protests, limited time duration allocated to complete the projects, delay in getting approvals from RDA, PRDA & PS etc. caused the project delays.

#### Auditor's Recommendation

District Managers should monitor the progress of the project in order to complete the Projects within scheduled time frame.

(b) Five contracts had been awarded to two contractors when they performed poorly in existing contracts and keep an advance of Rs.140.65 million without utilizing in project activities effectively.

Advance payments of Bulathkohupitiya, Orubandiwewa II and Ponnagar Water Supply schemes will be recovered soon. Delay in Thanduwan Rural Water Supply Scheme was due to delay in getting power supply to pump houses and issues in tree cutting in power cable line.

-Do-

- (c) The civil works contract awarded for the Water Supply Project at Ponnagar Pathipuram at Kilinochchi district at a cost of Rs.216.93 million is scheduled to be completed on 20 October 2018. Subsequently, the contract had been terminated due to poor performance of the contractor even 20 percent of works only had been completed. Further, completion of the balance works had been awarded on 15 November 2019 to the other contractor and scheduled to be completed on 28 November 2020. However, it had not been commissioned and house connections were not given even by 31 March 2022 resulting considerable delay of more than three years in achieving objectives of the project.
- As at today treatment plant has been commissioned and connection programme is yet to start. -Do-
- (d) The contract for construction of Monaragala Septage treatment plant had been awarded on 20 October 2020 with a scheduled completion period of 12 months. However, due to poor performance of the contractor it had not been completed even by the end of the year under review and the physical progress of the project was remained only at 45 percent even as at 31 March 2022. However, it was observed in audit that no time extension had been granted to the contractor after the scheduled completion period.
- The client did not handover the site within the bidding period. Pradeshiya Saba has dumped garbage in that site. Therefore, contractors' scope was changed and they could not complete the project as expected. We are in a decision to mutually terminate the contract.
- (e) No any contracts for the construction of septage treatment plant had been awarded in Badulla district even by the end of the year under review in terms of the section 15 of Project Appraisal Document even though the first time extension of project period had been lapsed on 31 March 2022. Further, contrary to the same section
- A suitable land was found and construction of septage treatment plant is progressing. -Do-

one Gully bowser had been released to the Ibbagamuwa Pradeshiya Sabha in Kurunegala District in which the project activities are not implemented.

- (f) As per random test check audit, it was observed that contrary to the section 8.14 of the government procurement guideline without having any justifiable reasons, contracts for procurement of vehicle on rent had been extended for two to three times, resulting to avoid selecting most responsive bidders through competitive bidding process. We have taken steps to recall fresh bids for vehicles. Those contracts are awarded to new contractors. -Do-
- (g) It was observed that out of 24,000 lavatories scheduled to be constructed in the 07 districts during the period of project. However, construction activities of 1,302 lavatories or 34 percent of planned lavatories had not been commenced even by the end of the year under review. In Implementing stage of the project due to eligibility of given sanitation facilities of beneficiary selection criteria and other matters, beneficiaries dropped and left the program. -Do-
- (h) As per the initial action plan of the project 84 special need beneficiary sanitation units of Rs.250,000 each to be constructed in Kegalle, Monaragala and Kilinochchi districts. However, only 43 units or 50 percent had only been constructed in Kegalle and Monaragala district and the construction activities in Kilinochchi district had been suspended. Further out of the planned 566 units of Indigenous sanitation in Badulla and Monaragala districts, the construction works of 154 units had not been commenced even by the end of the year under review. In implementing stage due to selection criteria and other matters Kilinochchi Programme not selected and project selected eligible 412 Indigenous beneficiaries. -Do-

- (i) Rs.880.63 million or more than 99 percent of the payment for the consultancy services of the Contract of providing consultancy services in the aspects of planning, designing, construction activities of the projects, had been made at the end of the year under review. However, as per the random physical audits conducted, it was observed that project terminations, project extensions, approving variation orders, approving extra works, re-designing of construction of official quarters etc. occurred continuously throughout the period of the project due to poor monitoring and supervision of the contracts executed, improper identification of the required project period, poor designing of the contracts etc. by the staff recruited under the above consultancy contract.
- Consultants and client's involvement in increasing performance is minimum. Hence consultant is not fully responsible for all those issues. -Do-

### 3.4 Observations made on site visits

No.	Audit Issue	Management Response	Auditor's Recommendations
(a)	<p><b>Yalagamuwa Rural Water Supply Scheme</b></p> <p>The following observations are made in this regard.</p> <p>Water tanks constructed in respect of Velipitathenna and Helagama Water Supply projects had not purified properly and water quality testing had not been conducted after 31 October 2019. Hence the safety of drinking water distributed to the people cannot be assured.</p>	<p>Water treatment facility of Aeration, Roughing Filtration and Slow sand filtration units were constructed and water quality are in drinking water standard.</p>	<p>Water Quality should be tested periodically in order to ensure the safety of drinking water.</p>
(b)	<p><b>Udubaddana Rural Water Supply Scheme</b></p> <p>The following observations are made.</p>	<p>Community objected for the water source and finally issue filed in court. Therefore,</p>	<p>Before commencing project activities all the issues with regard</p>

- (i) The contract for the water supply scheme of Udubaddana in Badulla district with the objective of supplying drinking water for 450 households had been awarded a cost of Rs.98.6 million and scheduled to be completed by 13 February 2019. However, it had failed to complete the activities of the project due to poor performance of contractor, public protest and court case filed against the construction activities of intake. Hence the activities of the project had been delayed for more than 30 months. contract was mutually terminated. This is not a contractor issue. to water source and lands should be cleared.
- (ii) The following activities that should have been completed as at 12 December 2018, had not been completed even by the end of December 2021. Construction work cannot continue with community objection. District Managers should monitor the progress of the project in order to complete the Projects within scheduled the time frame.
- Laying of pipes and fittings
  - Supplying of Water Pumps
  - Construction of Water tanks
  - Construction of caretakers quarters
- (iii) During caveat period from 12 December 2018 to 27 November 2019 the contractor had been paid a sum of Rs.77,760 on 05 February 2019 for transportation of backhoe excavator from Udubaddana to Gampaha. Machinery idling and demobilization cost was paid as per contract agreement. All the payments should be made in accordance with the contract agreement.
- (iv) After 11 months of receiving of judgment to commence the project activities it had been terminated on 27 November 2017. Hence, due to delay in getting decision to terminate the project based on poor performance of the contractor, it had been incurred a loss of Rs.2.7 million due to expenditure incurred on rent for the contractors site store, staff wages, bond extension charges and insurance etc. Further at the end of the termination balance work of Rs.66.16 million had to be done and the new contract had been awarded at a cost of Rs.104.41 million. Hence the project had to incur another loss of Already second contractor continuing works and construction metrical shortage and fuel shortage also effected to progress of work. District Managers should monitor the progress of the project in order to complete the Projects within scheduled the time frame.

38.25 million due to price escalation etc. After terminating the contract when the physical progress was remained at 52 percent, contract to complete the balance works had been awarded on 15 November 2021 and scheduled to be complete on 18 July 2022. However, due to poor performance of even the second contractor the progress of the project had remained at 25 percent even by the end of March 2022 after lapse of 50 percent of the contract period resulted a considerable delay in achieving the objectives of the project on time.

(c) **Diyathalawa Water Supply Scheme**

The following observations are made.

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| (i)  | The contract awarded on 23 May 2018 for Badulla Diyathalawa Water Supply Scheme at a cost of Rs.337.44 million is scheduled to be completed within 12 months period. However, due to poor performance of the contractor, the contract had been terminated on 20 January 2022 after granting three time extensions when the progress of the projects remained at 31 percent. However, the contract to complete the balance works of the project had not been awarded even by the end of May 2022. Hence due to delay of getting the decision to terminate the contract on right time the ultimate objectives of the project could not be achieved even after lapse of 4 years of awarding the contract and it allowed keeping the mobilization advances Rs.57.65 million paid on 06 May 2019 without utilizing for project activities effectively. | Contract was terminated as per the agreement and performance guarantee and advance payment guarantee demand and forfeited. | District Managers should monitor the progress of the project in order to complete the Projects within scheduled the time frame. |
| (ii) | As per the paper advertisement published on 08 November 2017, the contractor should be registered in grade C2 or above in the field of Water Supply and Sanitation in CIDA. However, the contract had been awarded to the above contractor with no prior experience in the                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | At the bidding time contractor has fulfilled the CIDA C2 in water supply.                                                  | Contracts should be awarded only to the most responsive bidders.                                                                |

fields of water supply and sanitation as stipulated in the amended World Bank procurement guideline published July 2014. Further, as per the bidding documents of the contract, pre inspection of factory visit for DI and PE pipes had not been done by the officers of the Water Supply & Drainage Board.

- (iii) As per the physical inspection conducted on 29 November 2021, distribution pipe laying of 1.5 Kilo meters had been completed out of 24 kilo meters even after lapse of 42 months from the commencement of the project. Further due to failure of the contractor to supply the required pipes to the project, contrary to the provisions in the contract agreement project director requested pipes and fittings of the water board and hand it over to the contractor. However out of 2123 meters of DI pipes so supplied, only 1942.6 meters had been laid by the contractor. However, no actions had been taken to return the piped to the water board even by 31 March 2022.
- New supply contract prepared by NWSDB and awarded under WASSIP funds to supply of DI pipes to NWSDB. Construction activities should be executed in accordance with the contract agreement.
- (iv) Due to failure of completing temporary road re-statement properly by the contractor it was observed that, ABC applied to the road had escaped and damaged to the Bandarawela- Diyathalawa main road. However, no actions had been taken to rectify it.
- Amount of Rs 2, 758,945.00 was deducted from contractor in IPC -04 bill. Actions should be taken to rectify the road damages immediately.
- (d) **Orubediwewa Water Supply Project**  
Following observations are made.
- (i) The construction activities of Orubediwewa Water Supply Scheme had been awarded on 15 October 2020 at a cost of Rs.428.91 million with scheduled completion date of 14 October 2021. However, the contractor had failed to complete the project activities even by the end of March 2022 and the physical progress as at that date was remained only 55 percent.
- The progress of contractor was affected by Covid - 19. District Managers should monitor the progress of the project in order to complete the Projects within scheduled the time frame.

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| (ii)  | Pipes laying from the intake to Mahiyanganaya-Girandurukotte road had not been completed even by the end of January 2022.                                                                                                                                                                                                                                                                                                                                       | Pipe laying of Mahiyanganaya – Giradurukotte road was completed now. | – The contractor should be influenced to complete the works on time.                        |
| (iii) | Eventhough the construction of pontoon structure of Rs.13.5 million which had been included in the item No.01 of Bill of Quantity No.08 had been removed due to the oral agreement to construct one intake for this project as well as Bathalayaya, Belaganwewa water supply project which had been implemented under Puraneguma Project, the advance paid amounting to Rs.2.7 million on that had not been recovered even by the end of the year under review. | Cost saving in construction of Intake was considered.                | Ensure overpaid advances are recovered immediately.                                         |
| (iv)  | Laying of 2958 meters of PE and Upvc pipes relating to 6 categories of separate distances had not been commenced even by the end of January 2022. Further the approval for distribution pipe laying over the Mahaweli Authority premises had not been obtained from Mahaweli Authority even by the end of March 2022.                                                                                                                                           | Laying of 2958 m of PE and UPVC pipe laying almost completed.        | Prior approval should be taken from the respective institutions for pipe laying activities. |

### 3.5 Idle/ Unutilized Resources

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The following observations are made.

<b>No</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
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(a)	Two vehicles had been released to National Water Supply & Drainage Board and Plantation Human Development Trust during the year under review and Rs.3.94 million had been incurred thereon. However, it was revealed in audit that vehicle released to the National Water Supply & Drainage Board had been utilized for daily staff transportation contrary to the section 33 and Section 34 of project appraisal document.	Currently we have allocated vehicle for sewerage section of the NWSDB as they are involving with planning and designing septage treatment plants for project.	Follow-up action should be taken to obtain the vehicles from the respective institutions.



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| <p>(b) A mobile laboratory procured by the project at a cost of Rs.27.2 million during the year 2019 had been handed over to the department of National community &amp; Water Supply on 10 April 2019 without transferring the legal ownership of the vehicle properly. However, it had been used for only in 24 days as at the end of the year under review for the sample collection.</p>                                                                                                                                                                                 | <p>Mobile laboratory ownership was transferred to DNCWS on 10.04.2019. There after the laboratory was used for DNCWS testing.</p> | <p>Proper monitoring mechanism should be in place in order to ensure effective utilization of project's funds by the associated institutions in the component 03 of the Project Appraisal Document.</p> |
| <p>(c) Water meters and ferrules of 15,000 each, valued at Rs.90.98 million had been procured during October and November of the year under review to distribute to community based water projects. However, out of that 3100 number of water meters and 13282 numbers of ferrules valued at Rs.41.95 had remained in Project Monitoring unit even as at 18 May 2022 without distributing to the district manager offices. However, no evidence was received to the audit to verify the amount of water meters already use for new water connections of each districts.</p> | <p>Those materials are required for future house connections.</p>                                                                 | <p>Proper monitoring mechanism should be in place in order to ensure effective utilization of project's funds.</p>                                                                                      |

### 3.6 Matters in Contentious Nature

Following observations are made.

#### **Audit Issue**

It was revealed in audit that 125 items of fixed assets including computer and office equipment of Nuwaraeliya district office had been released to Department of National community and Water Supply and to National Water Supply & Drainage Board without prior approval of the Secretary to the Ministry of Water Supply.

#### **Response of the Management**

Needs of NWSDB, PHDT and DNCWS were identified and provided as per the conditions in component 3 of project.

#### **Auditor's Recommendation**

Prior approval of the Secretary to the Ministry of Water Supply should be taken when releasing assets of the project to the identified stakeholders as per the conditions in component 3 of project.

### 3.7 Issues Related to Human Resources Management

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The following observations are made.

<b>No.</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
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(a)	The cadre of the Project Monitoring Unit consisted with 27 positions. Out of those 81 vacancies of 18 positions including key posts such as Deputy Project Director, District Managers, Engineer, Chief Accountant and Sociologist had remained unfilled for over 6 years as at 31 December 2021. Further, no any officers had been recruited for the approved posts of Institutional & Communication Specialist, Programme Office, Administrative officer and Project secretary even at the end of the year under review. In addition to that, it was observed that no any duty list had been given to employees even at the end of the year under review.	All vacancies are filled as per the requirement of works and only some vacancies were not filled for over 6 years which Sociologist and Deputy Project Director positions.	Actions should be taken to fill the vacancies without delay and avoid the recruitment of unapproved cadre. Further duty lists should be given to each and every employee.
(b)	Further, the Project had deployed 133 employees under service contract agreement basis contrary to the Department of Management Service Circulars No.01/2019 of 15 March 2019 of the Department of Management Service and remuneration aggregating Rs.69.20 million had been paid during the year under review. Out of that 29 employees had been deployed for 08 positions such as Quantity Survey, Draftsmen, and Land officer which had not been approved by Department of Management Service.	We were managed to inform the donors and get their concurrence before recruitments. As all these positions are short term contracts, we did not obtain approval from MSD.	Strictly adhere with the provisions of Department of Management Service Circulars.
(c)	The Project Director had been promoted as Deputy General Manager (Western North) of National Water Supply Drainage Board with effect from 05 November 2020 even though he should be always be recruited on full time basis in order to ensure effective project management in terms of the Section 2.3.2 of the Circular No.01/2019 of 05 March 2019 of the Department of Management Services.	As he is thoroughly conversant with the project, he will be able to continue the work for future as project is currently at final stage of implementation which new recruitments are not needed.	Actions should be taken to appoint a full time Project Director.