

Head 332 - Department of National Community Water Supply

1. Financial Statements

1.1 Qualified Opinion

Head 332 - The audit of the financial statements of the Department of national community water supply for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 read in conjunction with provisions of the National Audit Act, No.19 of 2018. The summary report containing my comments and observations on the financial statements of the Department was issued to the Accounting Officer on 18 May 2023 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 30 May 2023 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 of the Democratic Socialist Republic of Sri Lanka 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of National Community Water Supply as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The 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 misstatements, 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 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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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 Requirements

I express the following matters in terms of Section 6(1)(d) of the National Audit Act, No.19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

Reference to the paragraph	Audit Observation	Recommendation
Paragraph 1.6.1.2.1 (a) of the Auditor General's Summary Report of the year 2021 according to Section 11(1) of the National Audit Act No. 19 of 2018	As per the final account statements of the treasury, it was stated that the department has transport equipment worth Rs. 37,967,000 but 05 motor vehicles belonging to other institutions worth Rs.12,900,000 had been included in it. Since the accuracy of the fixed asset value included in the departmental financial statements is not satisfactory in audit the fixed assets should be correctly identified and included in the financial statements and fixed assets register accordingly.	Paragraph 1.6.1.(a) (i)

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Property, Plant and Equipment

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) It was revealed that the transport equipment worth Rs.74,767,000 included in the report on non-financial assets in the financial	According to the Assets Circular No. 03/2018, the relevant documents have been handed over to	Assets belonging to other organizations that are used should be formally taken

statements also included the value of Rs.10,700,000 related to 04 motor vehicles belonging to other organizations.

Comptroller General's Office, on 22 November 2022 to transfer the ownership of 04 motor vehicles to the department that belong to other institutions.

- (ii) 64 motorcycles worth Rs.13,984,000 which were purchased by the funds of the Water Supply and Sanitation Improvement Project and registered under the name of the Secretary to the Ministry of City Planning and Water Supply were received by the department in the year 2019, the ownership of those motorcycles had not been transferred and accounted for department as of the audited date of 23 March 2023.
- The registration certificates of 53 motorcycles have currently given by the water supply and sanitation improvement project to the department and the necessary arrangements are being made to take over them.
- Necessary steps should be taken immediately to take over the ownership of these motorcycles and enter the details of them in the fixed asset register.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
The annual allocation of Rs.1,000,000 related to the financial grants received by the United Nations International Children's Emergency Fund (UNICEF) and the additional allocation of Rs. 2,696,000, only Rs. 1,375,552 had been spent in the year which was 37 percent.	An allocation of Rs.2,696,000 was allocated for the UNICEF program in 2022, and an amount of Rs.375,552 was paid for the projects that had been completed and received bills by 31 December 2022.	Necessary measures should be taken to provide the relevant benefits promptly to the parties who should be entitled to benefits from such funds received as foreign grants and a system should be prepared to prevent inefficiencies.

2.2 Certification of Accounting Officer

Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) The accounting officer should 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 system, and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.	Effective internal controls have been established for the financial control of the department and regularly reviewed at staff meetings, progress review meetings.	Should be act in terms of provisions in Section 38 of the Audit Act.
(ii) The Accounting Officer shall ensure that all audit queries be answered within the specified time as required by the Auditor General. However, in terms of paragraph 3.7 of the report, an audit query issued in March 2022 had not been answered.	Will submit the answer after completion of investigation.	Should be act in terms of provisions in Section 38 of the Audit Act.
(iii) The Accounting Officer shall ensure that an effective mechanism exists to conduct an internal audit. However, the said requirements had not been fulfilled due to observations indicated in paragraph 4.1 of the report.	Due to the fact that the accountant who was assigned to this division was on local leave, an officer has not been appointed for her till now and the audit division of the ministry is continuing this process.	As per the provisions of the National Audit Act as well as considering the duties of the department, there is a strong need for an internal audit unit, so an internal audit unit consisting of appropriate officers should be established promptly.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Observation Value Rs.	Non-compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. 751(1),752, 763	220,169,400	Information about the water pumps and accessories that were purchased and distributed to community-based organizations for the construction of community water supply projects and 2,543 water meters that had been received as donations had not been included to inventory books.	Instructions have been given to record all receipts in the stock books in future.	The department should be introduced a formal internal control system for the equipment and accessories that are purchased and distributed and should conduct a survey regarding the goods currently in the warehouse and get a confirmation of the physical existence of all the equipment and deal with the shortages and excesses according to the financial regulations.
(b) Procurement Guidelines of Democratic Socialist Republic of Sri Lanka 2006 Paragraphs 4.1 and 4.4	68,097,893	Although the contracts of roads, drainage and canals should be divided into individual files so that the local bidders can fulfill them, bids should be called for many files at the same	The total allocation mentioned in the estimate is subject to the annual allocation limit for project implementation at each stage, According to the procurement	According to the procurement guideline, contractors should be selected for the projects implemented by the department according to the most effective

time, but the guidelines for items method. project of providing where the relevant clean drinking community-based water to 800 organization does families in not have the Manikkadwara and technical Pallegama villages capability, the was divided into 10 contractors have phases and on been selected by several occasions, inviting prices it was given to 02 under the community-based competitive organizations and bidding procedure. 03 private institutions.

2.4 Irregular Transactions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) As per Public Finance Circular No. 01/2012 and 01/2021 dated 05 January 2012 and 29 September 2021 respectively, although construction contracts to community-based organizations should be awarded by a three-member committee, the project of providing drinking water to the people of 800 families in Menikkadwara and Pallegama villages, which underwent audit sampling, was not done on the recommendations of such a three-member committee and although the work had been started by the contractors selected by the</p>	<p>When awarding contracts to community-based organizations from the year 2021, contracts are awarded only to organizations registered with the Department and benefiting from the relevant project. After the completion of the project, its maintenance and operations will be handed over to the relevant community-based organization, Projects with a value of less than Rs. 5 million are not evaluated by a committee because they are given to the community organization that will benefit from the project and prices are not compared with other organizations.</p>	<p>Arrangements should be made for the assignment of contracts after confirming the eligibility of community-based organization as per circular instructions.</p>

department, the project had been failed as it could not reach the desired objective.

- (b) In relation to 04 water supply projects implemented in Monaragala district, a total of Rs. 2,195,071 was not completed in 84 works included in the construction contracts and a total of Rs. 777,347 was paid for 17 construction works that were half completed or were done contrary to the standards mentioned in the measurement sheets, on the certificate of the district engineers. For one more project, Rs.3,929,236 was paid in advance and no work related to it was done and by March 2023, all the above projects had been abandoned in the middle. Accordingly, the amount of Rs. 17,730,116 that had been spent for that was becoming an idle expense.
- The project has not been stopped midway, and the relevant performance guarantees and advance guarantees are currently being extended and work is in progress and will look into the bill payment issue further and submit a report later.
- It is observed that losses to the government had incurred due to ensuring payments and making payments without proper supervision of these contract activities, the relevant responsible persons should be dealt with according to the financial regulations.
- (c) Public funds of Rs.295,000 had been paid without proof or confirmation of the performance of several works in the contracts given for the construction of 4 dug wells and a water tank in 5 areas of Batticaloa district and Rs.4,148,606 for overpayments for unfulfilled works and over the amount of work done. Before starting these projects, a feasibility study had not been conducted including
- Before paying these bills, have checked the photos of the related constructions and made the payment, and will look into the issue further and submit a report later.
- As it has been revealed in the audits that losses had incurred to the government in this contract work due to the negligence of the officers, necessary disciplinary action should be taken against the responsible officers as per the financial regulations. Also, these constructions should be expedited to fulfill the drinking water needs of the people in those areas.

water condition testing in the respective places and it was confirmed in the water sample tests that the condition of the water in 03 wells that had been constructed was below the expected level and unfit for use. Accordingly, it had been revealed that the officials related to these water supplies have been very negligent in dealing with losses to the government.

3. Operating Review

3.1 Vision and Mission

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The draft bill for the establishment of the Department of National Community Water Supply had been approved by the Cabinet in 2014, but the relevant bill had not been passed by the end of the year under review. However, as mentioned above, the department was carrying out activities such as registering nearly 4530 community-based organizations and issuing certificates and charging monthly fees without a formal legal background.</p>	<p>The department has prepared the bill by involving all the stakeholders and forwarded it to the Legal Draftsman’s Department. Currently, the final draft is being prepared and observations are being made for it and will be forwarded promptly.</p>	<p>Prompt actions should be taken to pass the draft bill.</p>

3.2 Non-performance of Functions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The Department had awarded contracts for the construction and installation</p>	<p>The work of 50 out of 80 Nano Filters has been completed so far based on</p>	<p>Disciplinary action should be taken against the responsible officers in accordance with the</p>

of 80 Nano Filters under the annual budget provisions in the year 2021, and only 25 had been built and completed by the audited date of 31 December 2022, and a total of Rs. 120,718,050 had been spent by that date. In relation to this, as revealed in the sample audit conducted on 05 Nano Filters that were proposed to be constructed in Monaragala district, although the construction has been stopped in the middle without extending the contract period as per 8.14.1 of the Procurement Guidelines, there has been no arrangement to collect the late fees and encash the performance guarantee, total amount of Rs.7,385,602 had been paid on the basis of false certificates given by the technical officers while the construction was done contrary to the standards mentioned in the approved measurement sheets related to the construction.

the allocations received by the department. For the remaining 30, the contract has been awarded on 15 September 2021 and the performance guarantee has been extended by the relevant agency and the work is currently being carried out. Late fees have not been collected and these changes have occurred due to the contradictions between the design used by the contractor for the construction and the design mentioned in the bid documents, and currently the construction has been adjusted to the approved design.

financial regulations and the contract works which have been stopped in the middle of the construction should be completed promptly, since the management has been made aware of the facts revealed by the audits about the loss to the government due to the informality and carelessness of the officers in the procurement process, as well as the failure to fulfill the needs of the people who are expected to benefit from the work being done in a proper standard.

- (b) The National Water Supply and Drainage Board had carried out geological investigations to construct 4 tube wells in 4 selected villages domain in Monaragala district with a total expenditure of Rs.183,600 and work had started in the year 2021 and by the audit date of March 2023 only 2 wells had been

Construction has been carried out according to the estimates given by the National Water Supply and Drainage Board for these tube wells. But due to the notice that the estimates given were temporarily the water capacity tests were to be done was cancelled, these water capacity tests have not been carried out. At present,

The loss caused due to this informal contract work should be dealt with according to the financial regulations and the construction of 04 tube-wells should be completed promptly and the service should be provided to the people who are expecting benefits.

constructed at a total cost of Rs.1,260,058. The Department had not carried the work of water distribution through the constructed tube wells. Accordingly, including the amount of Rs. 183,600 spent for the above geological research, the total amount of Rs. 1,443,658 spent for this purpose was becoming an idle expenditure.

new estimates have been given and related work is being done.

3.3 Delays in the Execution of Projects

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A total of Rs.28,530,317 was paid to a private contractor for the performance of 14 tasks of the project of providing clean drinking water to 800 families in Menikkadwara and Pallegama villages and the construction of the pump house and sand filter was not done by February 2023. Although more than 03 years have passed since the first phase of this project was started, as of the date of audit, the amount of Rs.28,530,317 spent had become an idle expenditure as the project had not been completed.	The total expenditure incurred for the project is Rs. 27,130,316 as of the audited date. Due to the risk of landslides during the construction of this project, the construction related to those places was temporarily stopped until the relevant recommendations were received. This project is still in progress and the purchases and constructions made by the above expenses are essential to this project.	As stated in the audit observations, necessary disciplinary action should be taken against the responsible officers for negligently causing losses to the government in this contract work and for not providing the service promptly to the people who are expected to receive the service.

3.4 Projects without Progress despite the release of Money

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A total of Rs. 3,929,236 had been given in advance Under Tambana, Morontumulla and Kongolla Community Water Project, in relation to 02 contracts awarded on 04 October 2021, and as of 25 November 2022, which was the date of audit, the construction works had not been completed even though extensions had been given on several occasions.	By the date of audit, the work on the pump house had been completed and about 20 per cent progress had been made on the total projects. Due to the Covid-19 epidemic in the country and the high cost of raw materials, the contractor has temporarily stopped the work and is currently working on extending the relevant performance guarantees and advance guarantees.	These projects should be planned and completed within the stipulated time and the benefit should be given to the people who are expected to benefit.
(b) Contracts related to 4 water projects in Anuradhapura district with an estimated cost of Rs.53,537,675 were awarded to a private company in the year 2021 and the construction should have been completed in about a year. The audit had revealed that the construction of the pump house is only one of these projects had been completed, but the rest of the works had been left unfinished for over a year.	Due to the Covid-19 epidemic situation in the country and the high cost of raw materials, the contractor has temporarily stopped the work, and currently the related performance guarantees and advance guarantees have been extended and the work is in progress. Only this contractor has submitted bids for 3 of these contracts. This contractor has been awarded all 04 contracts as bids of more than Rs. 5 million have been submitted for other contracts.	A proper evaluation of the contractor's financial and physical capacity as well as prior work should have been done while awarding the contract. Also, there should be continuous monitoring of the contracts while they are in progress.

3.5 Procurements

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) 945 water meters were purchased during the year under review with a warranty period of one year for Rs.4,290,300 and as of the audited date of March 2023, the water meters had been idle for more than a year without use. Accordingly, the purchase of those water meters with warranty had become fruitless.	Although the procurements were conducted twice for the civil construction works of this project as per the annual procurement plan, due to the high cost of raw materials in the country, suitable bids were not submitted for awarding the contract. The relevant water meters have been purchased with the intention of carrying out civil construction works.	The need should be properly identified and procured and necessary disciplinary action should be taken against the officials who do not understand that it is the responsibility of the officials to use the government money effectively.
(b) 161 water pumps for 151 community-based organizations in 11 districts were purchased during the year 2022 from 2 organizations for Rs.192,705,000. It was revealed during the audit that this purchase had been made contrary to the instructions given in procurement guidelines no. 6.1.3, 6.1.4, 6.2.2, 6.3.6, 2.12(a), 7.10.1(b), 7.12.4 and 5.4.10(b) moreover 14 water pumps for Rs. 18,440,600 had not been supplied even by 25 January 2023, further an over payment of Rs.187,860 had been made for 02 water pumps worth Rs.1,966,000 given to 2 community-based organizations.	Due to the Covid-19 epidemic situation, the relevant bid documents were forwarded through e-mail. Bid Opening Committee reports are in order. Bidders have furnished documents of relevant financial capacity and previous experience (supply of pumps) with the bid, and so far, all the pumps have been supplied and contracts duly signed with the bidders. Pledges will be taken from the procurement and technical committee members in future procurement activities.	Disciplinary action should be taken for non-compliance with the procurement guidelines during this procurement process and a formal investigation should be conducted on this purchase.

- | | | |
|---|---|--|
| <p>(c) In relation to 5 water supply projects in Batticaloa area and 04 water supply projects in Monaragala area, contracts were awarded at a higher value of 24 percent to 29 percent higher than the engineering estimate values, and due to such excesses, the total cost of the contracts had been increased by Rs. 14,463,172. Accordingly, as per the instructions in paragraph 4.3 of the procurement guidelines, preparing the engineering estimates will not achieve the expected objectives and the cost spent for the same has become useless.</p> | <p>These estimates have been prepared using the rates approved by the Water Supply and Drainage Board in the early part of 2021, and this has happened due to the Covid 19 epidemic situation in the country and the increase in the prices of raw materials and the shortage of goods in the year 2021.</p> | <p>Management attention should be directed to prevent such irregularities during contract evaluation and awarding and to avoid losses to the government.</p> |
| <p>(d) An engineering estimate of Rs.12,209,816 had been prepared for the second phase of the Badulugamma, Bibila drinking water project and there were 06 works where the variance between the cost of the 07 main civil works and the estimated cost of the contractor exceeded 10 percent and when considering the items included in each of those works separately, the variance had taken an abnormally high value range of 587 percent. This variance was not taken into account when evaluating the bids.</p> | <p>Due to the situation of Covid-19 epidemic in the country during the year 2021, and increase in raw materials and scarcity of goods, bidders have indicated higher prices in the bid documents. Accordingly, only the total amount of the prices has been considered for awarding the contract due to the difficulty of itemizing the contract.</p> | <p>The engineering estimate should have been revised to suit the current economic environment and the attention of the management should be brought to that it is an informal method to award contracts at an abnormally high value.</p> |

3.6. Uneconomic Transactions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) It was planned to construct a water tank at an estimated cost of Rs.1,665,984 under the second</p>	<p>The project has not been abandoned and is being implemented under 03</p>	<p>Project implementation should be done with proper study and planning</p>

phase of providing water to 500 families in Ranugalla area of Monaragala and the contract was awarded for Rs.2,314,123 and Rs.462,824 had been paid in advance. It was decided to suspend the construction of the tank due to technical issues on 17 November 2021. For the construction of the first phase of this project, the sum at that time was Rs. 6,147,244 had been spent, but the intended purpose remained unfulfilled till now.

initial phases of the project subject to the availability of funds. Water supply can be done after the completion of those phases, and accordingly, in the third phase, it is planned to lay pipes and complete this tank, and estimates are currently being prepared in relation to that.

and for that there should be proper supervision of the relevant officials. The losses incurred to the government due to failure to do so should be dealt with as per the financial regulations.

(b) Two water pumps purchased for the Menikkadavara water project costing Rs.4,660,200 had been kept at the house of the secretary of the Community based Organization without being installed in the relevant project. The amount of Rs. 120,000 included in that cost for installation of water pumps had been paid to the supplier without installation of water pumps.

The observations revealed by the audit are true, the contract for the construction of the pump house has been canceled due to the Covid-19 pandemic situation. The contractor has agreed to install the pumps and will provide the pumps only to community-based organizations.

The department should implement a program to keep the equipment purchased for water supply projects safe and take necessary disciplinary action against officials who made payments without confirming the expenses.

3.7 Failure to reply Audit Queries

Description of the Audit Query	Comments of the Accounting Officer	Recommendation
Reply to an audit query No. WAS/A/DNCWS/2022/AQ-04 issued on 22 March 2022 had not been furnished till 31 March 2023.	Replying to the Asupini Community Water Project in Gampaha District has been delayed because an investigation is carried out. The answer will be submitted to the audit quarry after the completion of the investigation.	Management attention should be directed to the provisions of Section 38 of the National Audit Act No. 19 of 2018.

3.8 Management Weaknesses

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Instead of formally appraising the value of the 07 motor vehicles purchased by the department under the lease facility and the value was stated in the financial statements as Rs.36,800,000 that a mechanical engineer's valuation based on a written confirmation given by the Director Administration.	The valuation of these 07 motor vehicles is Rs. 36,800,000 as per the reports submitted earlier, so it has been done accordingly.	Assets belonging to other organizations that are used should be formally taken over and entered in the fixed assets register.
(b) It was revealed during the audit that the construction works of 160 water supply projects implemented by the department during the period of 2020-2022 with a total cost of Rs. 1,180,611,356 had been awarded to 41 private contractors, only 04 contracts had been completed by the audited date of 29 March 2023. It was not possible to report the overall status of the water supply schemes implemented in the last period due to not maintaining a contract register related to the contracts implemented by the Department.	These delays have occurred due to the impact of the covid 19 epidemic in the country, rising raw material prices, shortage of goods and the economic crisis in the construction industry during the years 2021 and 2022. At present, more than 70 percent of these contracts have been completed and the contract register is currently being properly maintained.	A register of contracts should be maintained by entering information related to all the contracts executed by the Department.

- (c) As per the Public Finance Circular No. 04/2016 (i) dated 30 September 2016, the financial limit of contract work that can be awarded at one time to a C-7 grade contractor registered with CIDA is between Rs.5 and 10 million, as revealed in the sample audit investigations, a private contracting company was allowed to complete 05 contract works with a total cost of Rs.24,736,088 in the same period exceeding the approved limit of Rs.14,736,088 in the Batticaloa district, it was revealed during the audit investigations that the contracts of 4 water projects totaling Rs.59,274,662 were awarded to one contractor in Anuradhapura district. As described in paragraphs 3.2, 3.3, 3.4 of this report, it was observed that this situation has directly affected the unusual delay in the completion of the relevant contract and the non-completion of the contract with a proper standard.
- According to the Public Finance Circulars dated 30.09.2016, it is not specified that multiple contracts within the relevant financial limit for a CIDA contractor cannot be awarded to the same contractor. Even the contractors who have won only one contract had been delayed. Thus, these delays have occurred due to the setbacks in the construction industry, due to the covid 19 epidemic situation in the country, the rise in the prices of raw materials, the shortage of goods and economic crisis conditions in the years 2021 and 2022.
- The shortcomings in the contract administration related to the community water supply schemes implemented by the department should be urgently rectified.

- (d) Although the audit reports informed the management about the general deficiencies in the contract administration such as not following up on the completion of the objectives of starting the projects, non-selection of contractors on a formal procurement system in relation to the water supply projects executed by the department, awarding contracts at a higher price than the estimated cost, making payments for work not done, not properly monitoring contracts, not maintaining proper records, not taking necessary actions on abandoning contracts midway, the department was unable to rectify the situation even at the end of the year under review.
- Clarifications related to audit observations have not been made.
- Regarding the matters pointed out by the audit, the attention of the relevant officials should be drawn up and a work order should be prepared to achieve the desired objectives by implementing the project.
- (e) According to the provisions of the "Praja Jala Abhimani" guidelines, before making the procurements, the procurement entity must confirm that the land acquisition activities have been completed and all other matters necessary for the smooth implementation of the project have been completed. The relevant construction sites had not been acquired.
- No land acquisition has been done in any of the community water projects that have been implemented so far and all those lands have been acquired as grants from government owned lands or private owners. The project will be implemented after obtaining the relevant permission without acquiring the land because the government will have to bear additional costs in acquiring the land.
- As mentioned in the answer, if all the lands belong to the government or have been received as private grants, it should not be a hindrance to formally take over without cost.

4. Good Governance

4.1 Internal Audit

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
In terms of Section 40(1) of the National Audit Act No. 19 of 2018 and Regulation No. 128 (a, b) and 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, an audit division should be established to implement a strong internal control system in the performance of the duties and responsibilities of the Accounts Officer. According to Section 41 of the National Audit Act, Audit and Management Committee meetings should be held properly. However, even though the position of internal auditor was approved in the Department's approved carder, the internal audit unit had not been established to maintain the performance and productivity of the Department at a high level by the end of the year under review.	A post of Internal Auditor 11/111 grade has been approved and requests have been submitted to the Secretary of the Ministry of Public Administration Home Affairs, Provincial Councils and Local Government through letters to appoint an Accountant II/III grade officer of the Sri Lanka Accountancy Service to fill the post of Internal Auditor. A request has submitted to revise the position of Internal Auditor as Accountant Grade I had been made by the Secretary to the Ministry to the Department of Management Services on 30.01.2023.	The provisions of the National Audit Act should be followed.

5. Human Resources Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
The number of vacancies in all categories including 15 posts out of 36 senior level approved posts was about 23 percent. However, a surplus of 72 employees was also observed and through this a very weak condition of employee management was observed.	Letters have been sent to the Public Service Provincial Councils and the Ministry of Local Government to appoint officers for the positions vacant. There is a surplus of 55 officers with newly appointed development officers assigned	Necessary measures should be taken to maintain the staff required for the operation of the Department.

to the Department. Requests have been made to the Department of Management Services to include those officers in the approved carder. Necessary arrangements are being made to recruit other vacant posts.