

## **National Water Supply and Drainage Board - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Water Supply and Drainage Board (“Board”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, 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 reported 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified 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 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 financial reporting process.

As per 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 National Water Supply and Drainage Board.

#### **1.4 Audit Scope**

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 auditor's 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 auditor's 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 Observation on preparation of Financial Statement**

### **1.5.1 Internal Control over the preparation of financial statements**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Fixed assets in eight cost centers with an aggregate value of Rs.720 million could not be verified and physically not existed as per verification report submitted to the audit. Further, the amount of Rs.999 million valued assets in Regional Support Centers could not be clearly identified and a provision of Rs.33 million had been made for depreciation of those assets during the year under review.	Accordingly Most of the times these assets are not verified as those were transferred to different locations. Sometimes verification committees didn't able to verify them even though they were physically existed. Accordingly provision of depreciation is accurate as those assets, as those were used in NWS&DB. For unserviceable assets, those will be disposed in the future and depreciation provided will be adjusted.	Management should take necessary action to manage assets to avoid misuses and misplace.
(b) Prior year adjustments had been done for the assets and depreciation in each and every year since the year 2012 due to weakness in internal controls relating to the assets classification. As a result of that, opening retained earnings of the year 2023 had been changed by Rs. 2,584 million and profit of previous years disclosed in audited financial statements were materially changed by providing incorrect information to users of those financial statements.	As per the LKAS 8 it is a regulatory requirement to correct the prior period errors. Due to the complexity of the transactions and asset base comprises of Rs.477Bn, there will be adjustments to be made after the year. Hence the NWSDB has complied with the said requirements.	Introduce internal controls to minimize the prior year adjustments since those adjustments have made significant differences to the financial statements.

- (c) It was revealed that the foreign grant balances aggregating to Rs.7,004 million in respect of 26 Projects and a sum of Rs. 334 million relating to one project had remained without being amortized over 15 years and 12 years respectively in the financial statements as at 31 December 2023, contrary to the provisions in the Sri Lanka Accounting Standard (LKAS 20). Further, Government grant, foreign grant and Local grant received for projects amounting to Rs. 42,267 million had remained over three years without being amortized and the Impact on non-amortization to the financial statements could not be ascertained in audit, since no details were submitted to the audit.
- Grants related to non-depreciated asset including lands were remained without being depreciated over the period. Also the life period of buildings prevailed are over 50 years. The respective grants are amortized until such period. The necessary actions will be taken to amortize the relevant grants in the future.
- Action should be taken to amortize foreign grants received in accordance with the provisions in respective Accounting Standards and detail schedule including grant amortization by identifying specific assets relating to that grant should be submitted to the audit

## 1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Rs. 1,378 million out of the total grant received Rs.5,294 million incurred as demurrages in relation to Water for all Project had been set off against the grant received from the General Treasury for that Project in contrary to the paragraph 4.3 of notes to the financial statements. Further, It had not been properly disclosed as per the requirement of the paragraph 39 of SLAS 20.	Amounts received from treasury to pay demurrages were accounted as grants. Capitalization of demurrage payments are not complying with accounting standards. To rectify these issue demurrages in relation to the Water for all Projects had been set off against the grant received from the General Treasury.	Required disclosure should be done in financial statements.
(b) The fully depreciated fixed assets in relation to 16 categories, amounting to Rs.3.67 billion were being continuously utilized by the Board, had not been reviewed annually to revise the estimated useful lifetime as per the paragraph 51 of the Sri Lanka	As per the paragraph 51 of LKAS 16, it is impracticable to value the asset base of the NWSDB as there is an immense asset base scattered around the country and substantial amount of assets are specific to the NWSDB. Therefore, it is difficult to get the	Ensure that comply with requirements of Sri Lanka Accounting Standard LKAS 16.

Accounting Standard LKAS 16.	services of a Government valuer to re-assess the useful economic life of the assets. However the Audit and Management Committee held during year 2023 decided to revalue the entire class of Motor vehicles.	
(c) Without identifying expected credit losses as per the paragraph 5.5 of the Sri Lanka Financial Reporting Standard on Financial Instruments (SLFRS 09), a provision of Rs.47 million had been made for impairment for sewerage debtors and other debtors based on a fixed rate as at 31 December 2023.	This represents 4.3% of trade & other receivable balance and required provision has been made for on these balances. Hence, this treatment in expected, credit loss method in SLFRS 9 would not make significant change to the balance.	Ensure to comply with Sri Lanka Accounting Standard – 09.
(d) In terms of paragraph 118 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38), relevant disclosure requirements such as the gross carrying amount and any accumulated amortization at the beginning and end of the period had not been made in the financial statements in relation to the intangible assets valued at Rs.27.73 million. Further, the board had failed to review the period of amortization and method of amortization for intangible assets at least each financial year as specified in paragraph 104 of Sri Lanka Accounting Standard on Intangible Assets (LKAS 38).	The total intangible assets comprise 0.0029% of the total asset. Therefore it is not necessary to review it every year. Further as per the para 74 of LKAS 38, the NWSDB is applying the Cost model to account the intangible assets. Hence reviewing period of the amortization is not required.	Ensure that comply with Sri Lanka Accounting Standard – 38 and the standard does not avoid the disclosure requirements even amount is insignificant.
(e) Leased hold assets valued at Rs.670 million had been disclosed as lease hold land under the free hold lands in notes to the financial statements without being disclosed as right of use assets as per the requirement of the para 51 of the SLFRS 16. Further, the Board had not charged the depreciation for right to use assets	The necessary actions will be taken to disclose the lease hold lands as the right of use assets as per requirement of SLFRS 16- Leases in the future.	Should be complied with the accounting standard requirement.

during the lease period and the impact on depreciation as at 31 December 2023 could not be ascertained due to lack of evidence.

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| (f) | Even though the loan obtained for Water Supply Projects represent 75 per cent of the total liabilities of the Board, the only minimum required information relating to loans had been disclosed as to comply with the minimum requirement of the LKAS 01. However, other required information for users understanding had not been disclosed.  | As per the previous practice of the NWS&DB, loan details have been already provided. As prescribed by the query more details will be disclosed in 2024 final accounts. Further information required will be provided accordingly.       | Make required disclosures to financial statements for users' decision making. |
| (g) | Subsidiary loan amount of Rs.8,717 million obtained from the Government had not been properly classified for users understanding and Loan obtained for Jaffna Killinochchi water supply Project had also categorized as direct loan instead of subsidiary loan even there is a subsidiary loan agreement. Difference of Rs.4,274 million was observed between the balances shown in the financial statements of the Board and the balances shown in the financial statements of state accounts regarding the loan No.3348. | This is a loan obtained by the Government and it recorded in the Island accounts and these are accounted as grants in the NWSDB on transaction basis in the foreign grants.   | Make required disclosures to financial statements for users' decision making. |
| (h) | The Board had not disclosed the details of comparison of income tax expense (income) of the current year with the previous year as per the required by the LKAS 12.  | Due to the accumulated tax loss as per the tax return of 22/23 tax year, tax expenses are not identified for years ended at 31.12.2022 and 31.12.2023. Accordingly, comparisons and disclosures are not incorporated to final accounts. | The required disclosures should be made for financial statements.             |

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| (i) | The Board had charged Rs.2,597 million of rechargeable advances given by customers in previous years to the current year income statement as other operating income and gain instead of recognizing profit from rechargeable works in respective years. The expenses relevant for these rechargeable works had been recognized in respective previous years' income statements. Therefore, profit of the year under review had been overstated by similar amount. | Due to the various contract conditions included in each contract agreement, project completion can be delayed from the dates expenses are incurred. Profits were identified at the time of completion certificates are issued, which is the point that risk and rewards are passed to the rechargeable customer. During the year which was identified as completed were transferred to Income Statement. | Responsible officers should take actions to issue completion certificates and make adjustments at the time of completion of the Project. |
| (j) | Indemnity liability of Rs.1,208 million recommended by the Committee appointed by the Mathara District Secretary to decide the indemnity for the farmers affected inundation due to the construction of Nilwala salinity barrier from 2019 to 2022 had not been disclosed in the financial statements as required by the paragraph 86 of the LKAS 37.   | Since out flow of economic benefit is not probable and cannot be measured properly indemnity liability recommended by the Committee appointed by the Mathara District Secretary was not incorporated in the accounts.<br>If there is any pending legal issue it will be identified and disclosed in the contingent liabilities.  | Required disclosures should be made in financial statements.   |

### 1.5.3 Accounting Policies

#### Audit Issue

As per the Section 3.2.1 of accounting policies submitted with the financial statements, provision had not been made for slow moving stocks amounting to Rs.1,106 million. Further, no procedure had been developed to identify the nature of the classification of inventory at the stock verification.

#### Management Comment

Depending on the criteria which taken for decide whether the items are nonmoving or not, it cannot say these all items have recorded as nonmoving over continuous three years period. Hence, it's not required to assess the net realizable value for those nonmoving stocks. Currently, NWSDB made the provision for obsolete stocks.

#### Recommendation

Should comply with the accounting policies submitted with the financial statements when preparing financial statements.

### 1.5.4 Accounting Deficiencies

#### Audit Issue

- (a) As per note No. 3.2.1 of accounting policies submitted with the financial

#### Management Comment

WAC calculation has been done in each item by taking the all island as a whole

#### Recommendation

Action should be taken to eliminate

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| <p>statements, the balance of inventory at the end of the year under review should be valued at weighted average cost method. However, audit test check revealed that the inventory balance derived from the management information system had not complied with the weighted average cost method due to abnormal price deviations between stock receipts and issues and amount of Rs. 200 million of abnormal price deviations had been deducted from the stock value as stock adjustments during the year under review. Hence, accuracy of balance of inventories in the financial statements could not be verified in audit.</p> | <p>through Inventory Management System (IMS).<br/><br/>It is noted that island wide total price variation from the ledger and the stock verification was approximately less than 1% of the total physically verified stock balance of NWSDB. It is expected that the price variance will be very minimum in future with the implementation of proposed IMS developments.</p> | <p>abnormal price deviations.</p>                  |
| <p>(b) As compared with the confirmations received from banks, in respect of accrued interest on loans of two foreign funded projects and three local funded projects, audit revealed that an over provision of Rs.1,195 million had been made in the financial statements. Therefore, the work in progress balance had been overstated by similar amount.</p>  | <p>The final interest payment or repayments will be decided after the restructuring of the foreign loans obtained by the Government. Therefore the amount of interest will be adjusted accordingly.</p>  | <p>Provision should be made on best estimates.</p> |
| <p>(c) As per the information received, the cost of sixty eight (68) completed and commissioned Projects amounting to Rs.25,697 million had remained in the work-in- progress as at 31 December 2023 without being capitalized. Therefore, the property, plant and equipment relevant for the year had been understated by similar amount. Further, depreciation on such assets had not been made during the year under review.</p>   | <p>The capitalization is normally executed part by part and at different stages valuation and approval for completion has to be obtained. Most of these said projects are still in the above process. Respective accountants were informed to capitalized if any asset are completed and in usable condition under the respective projects.</p>                              | <p>Expedite the capitalization process.</p>        |



<p>Further, Balances aggregating to Rs.199 million relating to 05 Projects shown under the work-in-progress are remained unchanged over thirteen years without being investigated to identify the reasons and to make necessary adjustments in the financial statements even this matter is reiterated from previous years. No impairment test had been carried out to identify the impairment impact.</p>	<p>Test for impairment if any and make provisions.</p>	
<p>(d) Assets and liabilities amounting to Rs.150 million and Rs.51 million respectively are remain long outstanding as non-operating assets and non-operating liabilities in the financial statements. However, the action had not been taken to clear them. Further, an unidentified prior year balance of Rs.235million, stock balance of Rs.22 million, bank balances of Rs.8 million and advances given to ministry amounting to Rs.15 million were included in the above balance as non-operating assets.</p>	<p>Due to the manual system being computerized, these balances were rolling over from the year 1999. Various actions such as formulating special committees, services from accredited Audit Firms to clear the above were initiated. The balance which is not cleared due to unavailability of the supporting documents. Liability of Rs.149 Mn will be transferred to the I&amp;E by taking necessary approvals. Actions are ongoing to clear these balances and will be cleared in the year 2024.</p>	<p>Actions should be taken to clear the existing balance and system needs to be introduced to prevent generation of unclear balances in future.</p>
<p>(e) Four lands and two vehicles which were recorded in assets registers of cost centers had not been accounted by assessing the value of that assets and three Lands belongs to Western South region had not been accounted or included in the fixed asset register.</p>	<p>The committee had been appointed to carryout post fixed asset verification and necessary action will be taken to according to the post verification report as soon as possible.</p>	<p>Actions should be taken to rectify the error on recognition of receivables from Treasury.</p>
<p>(f) As per the financial statements of the year under review, the balance of trade debtors including new connection debtors as at 31 December 2023 was Rs.14,905 million. However, provision for impairment had been made only for debtors amounting to Rs.14,324 million. Hence, no provision had been made for the debtors aggregating to</p>	<p>The impairment calculation was based on actual figures given by commercial system; whereas, debtor balance reported in financial statement is based on estimated revenue which is disclosed in note no 20 to the financial statement. The two systems (Commercial System and the General Ledger System) are configured to achieve two different</p>	<p>All debtor balance in ledger should be taken in to account when made impairment provisions.</p>

Rs.581 million.

objectives. Hence there is a difference between these two systems.

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| (g) | Consultancy fee received amounting to Rs.387 million from different projects before three years ago had been recognized as consultancy fee payable and it had not been settled or recognized as income as at 31 December 2023.  | Eligible parties for this amount were difficult to identify due to the complex nature of consultancy service provided. Until the reconciliation is prepared this balance was identified as a liability. After ongoing negotiations are finalized this account will be cleared in 2024.   | Need to settle the balances immediately.   |
| (h) | The Board had continued current year gratuity provision based on the assumption made by the actuary in the year 2021 and significant changes in the demographic and financial assumptions such as staff turnover, retirement age, rate of discount had been observed as at 31 December 2023. Therefore, it was observed that there may have significant difference with actual value and the accounted value of gratuity provision. | NWS&DB salary revisions are scheduled in every three years as per the past practice. Since the major factor for gratuity provision is changing in every three years NWS&DB is conducting actuarial valuations in every three years. Accordingly, new actuarial valuation will be carried out in 2024 and all effects due to changes in the demographic and financial assumptions such as staff turnover, retirement age, rate of discount, and salary will be taken in to account. | Provision should be made due to significant changes on assumption are there.                               |
| (i) | Depreciation amounting to Rs.6,130 million of operating assets and amortization relevant for those assets had been classified as administration expenses instead of being recognized as cost of sales.  | It is considered to recognize the depreciation related with main operational assets, when computing the cost of sales with the implementation of proposed Assets Management System (AMS) developments.   | Expenses which are directly related to the operation should be taken in to computing the operating profit. |

### 1.5.5 Un-reconciled Control Accounts or Records

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) An un-reconciled difference of Rs.1,456 million was observed between the value of metered sales, bulk sales, bowser supply and income from main operation shown in the VAT returns and the financial statements.	Some income categories already incorporated with Financial Statements but not included for VAT Return and timing differences were affected for these differences.	Reconcile the balances in financial statements, commercial system and income declared in VAT returns to identify the reasons for differences and submit all details to auditors for verify the

- accuracy of the sales figures.
- (b) A difference aggregating to Rs.20,667 million was observed in foreign grants of four foreign funded projects when compared the balances shown in the financial statements of the board and the balances shown in the individual financial statements of the respective projects. This difference is mainly created due to amortization of grants. The NWSDB prepares the financial statements after grant amortization. But the project financial statements are prepared by adding back the grant amortization. Make reconciliation for differences and make adjustments if there is any.
- (c) A difference amounting to Rs. 17,333 million was observed between the work- in- progress balance shown in the financial statements of the Board and the corresponding balances shown in the individual financial statements of seven Foreign Funded Projects. With regard to Anamaduwa Project the difference exists ,as a result of payment of advance for lands, which were not recorded in WIP, but recorded in Advance Account (BZ/247) in the project account. Make reconciliation for differences and make adjustments if there is any.
- (d) A difference of Rs.10,770 million was identified between the balance shown in the financial statements of the Board and the balance shown in the financial statements of the General Treasury in relation to the capital contribution. Reconciliation has been prepared and identified differences will be cleared in 2024. Reconcile the differences and adjust records accordingly.
- (e) The unreconciled difference of Rs. 323,782 is remained more than six months without being cleared in Cash in transits account as at 31 December 2023. Due to the cut off differences between Banks, regions and Head office cash in transits balances has been arose. Reconciliation is preparing and will be cleared accordingly. Reconcile the differences and adjust records accordingly.

### 1.5.6 Documentary Evidences not made available for Audit

	<b>Item</b>	<b>Amount Rs. million</b>	<b>Evidence available</b>	<b>not</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Other Debtors	79	Customer wise detail schedule for other debtor balances in Head Office, Consumer asset management, Regional support centers – Colombo North, Manager office-Trinco &Dehiwala		Age analysis has already been submitted.	Detail schedules (i-xiii) had not been submitted to the audit. Actions should be taken to maintain the detail schedules for other debtors, short term deposits, withholding tax in order to take follow up actions.
(b)	Non- moving & Slow-moving Stocks	1,655	Age analysis		Age analysis has already been submitted.	
(c)	Short Term Deposits in Other Institutions	5	Detailed schedules and reasons for existence.		Age analysis has already been submitted.	
(d)	Withholding Tax	112	Detailed schedules and Certificates		Although several requests were made, IRD has not submitted Refund claims. Copies of certificates or schedules of the submission are to be given to the Government Audit in this year.	
(e)	Rehabilitation Tax	2	Detailed Computation, Schedules	Tax	This is a liability account and schedule was submitted. The balance was brought forward from 1999. This should be included in the non-operating balances. Actions are ongoing to clear these balances and	

			will be cleared in the year 2024.
(f)	Treasury Grant 137	Detailed schedule of grant with relevant project details	A detailed schedule was submitted.
(g)	Capital Grants- Local Authorities 544	Detailed schedule of grant with relevant project details	A detailed schedule was submitted.
(h)	Foreign Capital Grants 7,232	Detailed schedule of grant with relevant project details	A detailed schedule was submitted.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Trade debtors, new connection debtors, sewerage debtors and other debtors aggregating to Rs.2,344.78 million had remained over two years without being recovered. Out of above trade debtors 66 per cent represents in Western central, Southern, Western North, and Western south regions. Even though new connection debtors are to be recovered from 3 installments within three months, Rs.32.5 million had remained more than 3 years period without being recovered.	The outstanding arrears grew up gradually. Action has been now taken to recover the arrears.	The action should be taken to recover the outstanding balances.
(b)	A sum of Rs.3.5 million in respect of 23 water connections given to parliament members' government quarters had remained long outstanding without being recovered as at the end of the year under review.	The General Secretary of the Parliament has informed that it is not possible to recover the arrears due from the deceased public representatives. Recovery of arrears from private quarters of public representatives	The sufficient and necessary actions should be taken to recover due amount from relevant parties.

Actions will be taken to recover arrears as ordinary consumers. Accordingly, instructions have been given commercial officers to disconnect the water supply in the places where the arrears are not paid.

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| (c) | Outstanding disconnected debtors as at 31 December 2023 was Rs.1, 886.73 million. Out of that, amounting to Rs.1,293.21 million which is equivalent to 69 percent had remained outstanding over two years without being recovered.  | Legal actions have been already taken to recover the outstanding arrears. 2464 cases were reported to head office to take legal actions. 1972 cases were also closed in the year 2023. There is a progress. Training sessions are conducting in RSCs on recoveries. The recovery process is ongoing. | Actions need to be taken to expedite the recovery process.   |
| (d) | An outstanding balance of Rs.1.76 million in respect of two illegal connections of Galle Urban Council due from 20 years and Rs.28 million in respect of Colombo Municipal Council of due more than 6 years had not been recovered even by the end of the year under review.  | The arrears have been collected from the account numbers of Galle Municipal Council after written notices have been served, several meetings have been held and action taken to recover the arrears. Further, decisions are to be taken by the Management Level.                                     | Immediate action should be taken to recover the losses incurred due to illegal water connections.  |
| (e) | When analyzing the confirmation sent to debtors, number of 36 accounts with aggregating value of Rs.58 million out of 160 accounts with aggregating value of Rs.347 million had been confirmed as at 30 April 2023. Number of one accounts value aggregating to Rs.2 million had been returned due to inability to find the location and number of 123 accounts value aggregating to Rs.288 million and 76.87 per cent had not been responded. Therefore, existence of majority of debtors could not be verified. | Addresses available in the system were used. The same addresses are used to deliver the water bills and other official communications with customers.  | Need to verify the real address of the customer during the operations and the differences observed should be classified and found the reason |
| (f) | Refundable Short term deposits aggregating to Rs. 60 million deposited in external institutions   | Some of these amounts had been paid to Road Development Authority in the year 2017 February, as refundable   | The immediate actions should be taken to review the existence of   |

had remained outstanding over three years without being recovered.

deposit. In order to recover this deposit, the RDA has been informed in year 2022, but no settlement has been made so far. Therefore, arrangements will be made to recover this in future payments of RDA.

deposits and advances and the recovery process should be expedited.

## 1.6.2 Advance

Audit Issue	Management Comment	Recommendation
(a) The action had not been taken to clear land advance amount of Rs.47 million paid to Divisional Secretary by Regional Service Center (Central) even though the respective lands had been acquired as at 31 December 2023. Therefore, assets had been understated by similar amount. Further, amount of Rs. 42 million advances given to Divisional Secretariat had been recorded as advances given to contractor under ledger code 246 and is being remained more than 09 years without being cleared.	Actions will be taken immediately to find assets forms and correct the error at the capitalization stage.	The advance Payment should be reviewed periodically.
(b) Loans and advances given to former employees –non active amounting to Rs.17 million had remained in accounts for more than eight years period without taking proper actions to recover as at 31 October 2023. However, as per test check done by audit it was observed that more than 90 percent of the above employees who have obtained loans and advances had been given retirement without recovering due amounts as per the para no.03.5 of Board Circular P 12/2011 dated 2011 August 05.	The Finance Department has been informed to recover the amount due to the Board from those who have retired according to the prescribed procedures.	Immediate actions should be taken to recover those balances and if it is unable to recover, Action should be taken against the employees who allow retiring the employees without recovering receivables.

## 1.7 Related parties and Related party Transactions not disclosed

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Disclosures in relation to the related party transactions such as directors' emolument of Rs.4.02 million and retirement gratuity of Rs.6.25 million had not been made in the financial statements as per the requirements of LKAS 24.	Due to the huge customer and supplier base NWS&DB has transactions with potential related parties are collectively and individually insignificant and entering into transaction with any party in the normal course of its operations. Disclosures for related party transactions are done on above grounds.	Should be complied with the accounting standard requirements.

## 1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management comment</b>	<b>Recommendation</b>
(a)	Section 571 of Financial Regulations of Democratic Socialist Republic of Sri Lanka	Refundable tender deposits amounting to Rs.219 million had remained over two years without being released to relevant parties or credited to the income.	Based on the fulfillment of the condition to release the Refundable deposits, it will be done accordingly.	Review the deposit balances quarterly and settle at the right time.
(b)	Paragraph 5.1 of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021	Contrary to that provision, a sum of Rs.287.85 million had been paid as productivity incentive instead of Bonus for the year 2023 under the Board approval without paying profits to the consolidated fund. In addition to that amount of Rs.471.39 million had been paid to employees as monthly productivity allowance with the salary during the year under review.	Productivity incentive was paid as per the increase of productivity levels. This was calculated as per a formula which includes productivity criteria's like Revenue, Collection, NRW and etc. Bonus is paid only as per the profit earned and government circulars issued. Accordingly bonus was not paid.	Comply with the requirement of Operational Manual.



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| (c) | Paragraph 2.1 on Corporate Governance for state owned enterprises on 16 November 2021   | Corporate communication Branch had been handed over to the chairman of the Board by General Manager without informing to the Board of directors even the Board of directors is required to introduce and maintain necessary controls to ensure that the policy and operational roles are clearly demarcated with adequate oversight. | Based on the Board Circular P 28/2023 dated 09.05.2023 the authority to oversee corporate communication section has been given to Chairman of the Board.   | Board of Directors was not given authority. Therefore, Comply with the Guideline requirement.                 |
| (d) | Management Services Circular No. 30 of 22 September 2006 and Section 3.2(i) of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021 and the letter No. DMS/E2/19/4/064 dated 23 May 2011 of Director General of DMS. | Approval for the Scheme of Recruitment and Promotion Procedure of the Board had not been obtained from the Department of Management Services even by the end of March 2024.  | SOR prepared by an expert committee was submitted to Management Services Department returned to prepare standard format. Then, the Proposed SOR is under review and discussions with trade unions to finalize. Accordingly SOR will be submitted again to MSD. | Approval for SOR should be obtained as soon as possible.  |
| (e) | Department of Management Services Circular No.49 dated 24 December 2012 and cabinet decision dated 11 January 2012  | Board had paid the remuneration and the Bonus for employees only with the cabinet approval continuously since the year 2012, without entering into the collective agreements with employees.   | Noted.   | Need to adhere to the circular requirement.   |
| (f) | Public Finance circular no.01/2020 of 28 August 2020  | Even the accident was happened in 12 April 2023 to vehicle allocated for the General Manager, the Board had not been reported the estimated loss of Rs.13 million on that vehicle accident to the Chief accounting officer and Public finance department in General Treasury as at 31 December 2023.                                 | Since the actual loss has not been calculated yet and after clearly identifying it, the explanation will be called from the respective driver.   | Management should be responsible for non-recovering losses and taking more than one year to assess the losses |

			and also not claimed from insurance within the eligible period.
(g)	Paragrph 1.2 of the circular No.01/2020 of 27 January 2020 of Public Enterprise Department Circular.	Two vehicles had been assigned to the Chairman and Vice chairman in the year 2022 and 2023 instead of allocating one for each under Vehicle Policy of the Board as per the Board decision No.5/15/2022-898 without having special approval from the Secretary to the General Treasury.	Depending on the requirement the vehicles are allocated to the sections. These Vehicles were allocated to the secretariat division.
(h)	3.2.2 of 01/2021 of Public Enterprise Department Circular.	Without obtaining the approval of the Board of Directors, the Board had paid Rs.7.4 million for the excess use of fuel 23,313 liters of Additional General Managers and the Deputy General Managers during the period of January 2022 to July 2023.	Further additional fuel used above the indicated limits in Board Circular P 19/2008 19/2008 could be obtained through respective authority as per the circular issued.
		The Board had given approval to use the Board vehicles to Additional GMs, Deputy GMs, Assistant GMs and managers after the office time and holidays for personal use at concessionary rates of Rs.2 to 15 per kilometer without a limit since the year 1990 without obtaining special approval from the General Treasury. Accordingly, it was revealed in the sample audit that the Board had misused the Board's fund of Rs.4 million for 12,010 fuel liters utilized for the personal use of 13 employees from January 2022 to July 2023.	Accordingly the circular approved by the board on 1990.08.01 is still being implemented. Further the excess fuel is being limited as per the circular issued by the G.M dated 08.03.2024 numbered GM/OP by referring the PED circular no 01/2024 dated 28.02.2024.
(i)	01/2015 (ii) dated 14 January 2022 of Public Enterprise Department Circular.	Chairman and Vice Chairman of the Board utilized the unlimited fuel with the approval of the Minister instead of 145 liters per month contrary to the circular and without having approval from the Secretary to the General Treasury since	As per the authority vested to the line Minister, the respective line minister has approved it through the letter dated 25.11.2021
			Comply with the circular requirement and obtain necessary approvals for excess official

January 2021. However contrary to the paragraph 3.2 of the PED circular No 01/2015, approval had not been obtained for the excess 5,806 liters valued at Rs.2 million used by the chairman and 6,393 liters valued at Rs.2.3 million used by the Vice chairman during the period January 2022 to July 2023. Further, vehicle No PK 3575 assigned to Vice chairman had been used by the external party in the year 2022 and 2023 without informing to the General Manager and Governing body. During that period vehicle was run 13,698 kilometers.

numbered S/25. usage from relevant authorities. The Assigned to vehicle to vice chairman PK-3575 has been used by the ministry officials on several occasions. But, no fuel expenditure has been incurred by the Board.

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| (j) | Section 8.11.4/5 Procurement Guideline  | Explanation had not been obtained by the contractor about the reason for nonperforming the contract valued at Rs.75 million or no any written notice had been taken from the contractor under contract no.Sup & MM/Chem/HL-01/2021/22 as at 31 December 2023. Further, the Board had not informed to the line Ministry about the breach of contract by ignoring action taken against the contractor. | Due to lack of dollar liquidity at BOC, there was a delay to open up L.C up to 24/05/2023. However they have completed the supply of said quantity (2497.8MT) on 04/11/2023.   | Comply with the PED circular requirement. |
| (k) | Admin/12/2015 of 12 August 2015 of General Manager's Circulars and Guidelines | Legal actions had not been taken as per the circular to recover the outstanding debtors aggregating to Rs.695.48 million in respect of 4,448 disconnected debtors whose bill value over Rs.50,000 as at 31 December 2023.  | For year 2023, 5993 customer account numbers have been sent to the head office to initiate legal proceedings. Accordingly, progress has been achieved over the previous year. The amount is Rs.617 million. received to the recovery section of the head office to recover of arrears by legal procedure. Of this, in the year 2023, Rs. 66 million and till 30th April 2024 Rs. 55 million have been recovered. | Comply with the PED circular requirement. |

- (1) FD/72 of 06 June 2011 of General Manager's Circulars and Guidelines
- The amount of Rs.1.3 million given as supply advance before one year had not been settled by the respective employees even exceed the 14 days from the date of advance given as per the circular requirement.
- Normally the supply advances are being recovered within 14 days. This is a special case where an investigation is being carried out. Due to the ongoing investigation this advance has been withheld.
- Comply with the existing system.

## 1.9 Cash Management

Audit Issue	Management Comment	Recommendation
A committee of investment had not been established even the revenue per annum for last two years exceed the Rs.30 billion as per the requirement of Paragraph 6.2 of Operational Manual for State Owned Enterprises of Department of Public Enterprises dated 17 November 2021	Investment decisions were always taken with the consultation and discussion of Additional General Manager (Finance), Assistant General Manager (Corporate Finance) and Chief Accountant (Revenue). Even Documents are signed at least by two of them. Appointment of Investment Committee will be implemented in 2024.	Requirement for operational manual should be followed.

## 1.10 Non-Compliance with tax regulations

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Inland Revenue Act 24 of 2017 - Section 03	Assessable income from each source had not been calculated separately.	Since no tax liability was identified due to tax losses brought forward, assessable income is zero.	Assessable income should be calculated correctly even losses made.
- Section 91	Estimated income tax return for the year of assessment 2023/2024 had not been submitted as at 15 August 2023.	As per the Estimated Tax calculation for 2023/24 tax year, no tax liability has arisen. Accordingly EST was not submitted.	Even tax liability is not there, return should be submitted on due dates.
(b) Section 83A(1A) of Inland Revenue Act 24 of 2017 and Inland Revenue (amendment) Act 10 of 2021 and	The board had not taken in to account the Medical insurance allowance, Telephone allowance and circuit allowance and	Steps have been taken already to consider vehicle allowances, telephone allowances and Residence facility for APIT	Should be complied with the Act requirements to avoid penalties.

Inland Revenue Bungalow facility when calculations. (amendment) Act 45 of calculating tax liable 2022 and the Extra employment income when Ordinary Gazette computing the APIT Tax in No.2312/16 dated 28 the year 2023 and therefore December 2022, tax liability relevant for these allowances had not been paid to the Department of Inland Revenue.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a pre – tax net profit of Rs. 5,286.52 million and the corresponding pre – tax net loss in the preceding year amounted to Rs. 2,699.80 million (re-stated). Therefore, an increasing of profit by Rs.7,986.33 million overcoming the previous year loss of the financial result was observed. Increase in revenue by 74 per cent and other operating income and gains by 232 per cent as compared with the previous year were the main reasons attributed for this improvement in the financial results. Furthermore, gross profit was increased by 135 per cent than preceding year as result of comparative increasing in metered sales, Bulk and Bowser sales with the tariff increment. Transfer of rechargeable advances amount of Rs.2.597 million for completed jobs to the other income was also mainly affected to this favorable condition. Significant variances were observed between the figures in relation to the budgeted and actual income and expenditure ranging from (5) per cent to 404 per cent. Hence, it was observed that budget had not been made use as an effective instrument of management control.

### 2.2 Trend Analysis of major Income and Expenditure items

According to the information made available, analysis of major income and expenditure items of the year under review compared with the preceding year is as follows.

Description	Variance (Decrease) (Rs. Mn)	Increase/ 2022	Vari ance %	Reason for the Variance
	2023	2022		
Metered Sales	57,536	32,533	77	Increase of tariff rates ,new connection given, increase in domestic consumption, increase in bowser supply etc.
Cost of Sales	32,844	23,145	42	Increase in pumping cost, chemical cost, repair maintenance, establishment expenses etc.

Other operating income & gains	4,285	1,289	232	Increase in rechargeable income, Water Reclamation and Ground Water Income, Miscellaneous Income including Surcharge, Penalties etc.
Administrative Expenses	14,841	14,052	6	Increase in Repair, maintenance and establishment expenses, Rent, Rates, Taxes, Security etc.
Finance cost	14,948	3,917	282	Increase in loan disbursements during the year as compared with previous year, installments falling due during the year and interest rates significantly increase.

### 2.3 Ratio Analysis

According to the information made available, some of the important ratios of the Board for the year under review and the preceding year are as follows.

Year	2023	2022 restated
Gross Profit Margin	47	35
Net Profit Margin	9	(8)
Current Ratio (No. of time)	0.55	0.67
Liquidity Ratio (No. of times)	0.44	0.57
Total Asset Turn over (No. of times)	0.06	0.04
Debt to Equity Ratio	0.44	0.53

According to the above information, key financial ratios on liquidity position of the Board for the year under review had shown an unfavorable condition as compared with the preceding year. This deterioration is mainly due to the increment of interest payable on loans taken and loan payables as compared with the preceding year. Further, total outstanding loan balances of the Board had been decreased from 335 billion to 321 billion or by 4 per cent as compared with the previous year due to loan repayment made. Hence, the debt to equity (gearing) ratio had decreased from 0.53 to 0.44 percent or by 17 percent as compared with the preceding year. The net loss has decreased by seventeen per cent than preceding year mainly due to increase the tariff from September 2023. The asset turnover is at very low level by showing the inefficiencies of the asset utilization. However, asset utilization is favorable level by increasing 50 per cent as compared with the previous year.

**3. Operational Review**  
**3.1 Uneconomic Transactions**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Sheet piles fixed under the construction of the Nilwala Salinity Barrier to avoid the salt infusion for drinking water had been removed due to the influence of farmers at cost of Rs.8 million without having the recommendations of technical experts. Further, a report issued by a committee of the Environmental authority also highlighted that the construction of the barrier and other reasons also impact the inundation of the Matara District. After removing piles, quality inspection reports of the Board show that the salt is included in the Water. Therefore, the cost of removing sheet piles becomes ineffective.</p>	<p>Length of 40 feet sheet piles have been removed as per the instruction of District Secretary Matara due to Farmers protest without clear evidence of technical reasons. NWSDB have given clear objection to remove these steel sheet piles same time. However, other stake holders had taken decision to remove sheet piles without considering NWSDB objections. As a result, removing of these steel sheet piles are ineffective with considering long term effect.</p>	<p>Sheet files should be established with the expert opinion to effective the Project cost incurred.</p>

**3.2 Management Inefficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) As per the consumer charter of the Board, the first bill should be issued to the consumer within 30 days of the date of new connection. However, a considerable delay ranging from 89 days to 160 days were observed in delivering of 1<sup>st</sup> bill in Kotte - Kollonnawa, Colombo south, Kaluthara- Moranthuduwa and Maharagama – Kesbewa regions in 129 occasions as at 30 March 2024 in sample audit.</p>	<p>A service contract has been given for the provision of new water connections in these areas and it has been found that this situation has arisen due to the delay in providing the information provided by the contractors. However, efforts are being made to provide water bills within 30 days of water supply without such delay and follow-up activities will be carried out.</p>	<p>Ensure that comply with provisions in the consumer charter of the Board and internal control procedures should be strengthen to avoid such kind of failures occurring continuously.</p>
<p>(b) An aggregate amount of Rs.2.6 million and Rs.173 million, Rs.552 million of Obsolete, unserviceable and nonmoving respectively had been remained without being taken necessary actions to dispose as 31 December</p>	<p>Post stock verification will be taken on those assets as per the stores management procedure manual and the Stock Age analysis will be</p>	<p>Necessary action should be taken to clear those items as per the instructions given in the stores</p>

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| 2023 and Age analysis had not been provided by the Board to identify the stock lagging period.  | provided after the proposed IMS developments.  | management Process manual.   |
| (c) The Board had not taken necessary actions to clear the stock shortage amount of Rs.30 million which is remain more than three years.  | Currently, the detailed investigations on stock shortages have been conducted by the Industrial Relations department.  | Investigation should not be delayed unnecessarily and any losses occurred due to that delay should be beard by responsible officers. |
| (d) As per physical verification reports of the year 2023, it was observed that Free Hold Buildings, Structures, Infrastructure, Computer & Other Equipment, Survey equipment, Mobile Equipment etc. with an aggregate value of Rs.106 million had been damaged, removed from usage and demolished in relation to eight cost centers. However, no proper actions had been taken to dispose or remove those items. | The committee had been appointed to carryout post fixed asset verification and necessary action will be taken to according to the post verification report as soon as possible. Balance assets will be disposed with relevant approvals in the future.   | Dispose the unserviceable assets according to the circular requirement.  |
| (e) Approved operational manuals for the field of human resource, supply, and Information technology had not been available by the board to strengthen the internal control of the Board. Further operational manuals available for field of auditing, project, ground water handling, sewerage, designs and operations of RSC,OIC office and Manager office are not updated since1989.                           | For HR and IR department, operational manual are preparing along with the ISO standard certificate introducing process. Once the approvals are received those will be handed over to audit section and NWSDB followed Government rules and regulations necessary as to keep proper internal control. | Expedite the updating the manuals to smooth the operations of the Board.   |
| (f) Inventory levels had not been established by the Board for consumables such as hydrated lime, Aluminium sulphate, bleaching powder, chlorine, poly aluminium chloride. Limitations of the MIS system such as non-identification of age of stocks, undefined stock levels is also been impacted when assessing the requirements of the consumables. Therefore, some occasion's                                 | Action will be taken to solve this problem in future.  | Establish the inventory levels to avoid unnecessary cost to the Board and manage funds effectively.                                  |



material requirements had been assess incorrectly in decision making.

- (g) The amount of Rs.83 million for OPD treatments of employees by giving Rs.10,000 allowance per person with the salary and amount of Rs.13 million for reimbursement of other 6 categories treatments had been incurred by the Board during the year under review in addition to the cost incurred for external medical insurance policy. Further conditions for the claim of these category medical treatments were not covered by the two external insurance schemes accepted by the board contrary to the requirements of the Board decision no.4252(c) dated 09 February 2021. However, the Board had incurred Rs.259.50 million for 8,275 employees in the year 2023 under the external scheme compared to the amount of Rs.119.08 million incurred for 8,843 of employees under internal insurance scheme in the year 2021 by increasing the medical expense by 118.
- Rs.9,100 additional cost per person have to be beared by the Board as per the bids received. Therefore, Board had approved to pay Rs.10,000 per annum with salary until the suitable insurance scheme is met.
- Board should manage the expenses effectively.

### 3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
As per the financial statements, the stocks in transit on local purchase and imported stock in transit as at 31 December 2023 was Rs.1,246 million and Rs.4,827 million respectively. Out of those stocks, Local purchase amount of Rs.642 million had remained over three months without being cleared and imported stock in transit amount of Rs. 3,070 million had remained over two years without being cleared.	These accounts are acting as control accounts to allocate the total cost to stock imported through letter of credits. Normally one LC has few consignments or lots to be completed. Until all the consignments are completed balances in LC control accounts cannot be cleared.	Actions need to be taken to investigate the long outstanding stocks in transit balances and ensure the accuracy of recognition in stock in transit in the financial statements.

### 3.4 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
After the grace period for loan granted for	IPC payments have not been done to the	Expedite the Project

Gampaha, Attanagalla & Minuwangoda Water Supply project by the China Development Bank, six loan installments amounting to USD 45 million had been paid at the end of the year under review. However, out of loan disbursed by the China Development Bank, a sum of USD 52 million equivalent to Rs.16,836.51 million or 29 percent of loan had been retained in Escrow account without being utilized for project activities by the end of the year under review.

Contractor since April 2022 due to the interim debt policy of the country. Negotiations have been done with the CDB to disburse balance funds available in ESCROW account and a favorable solution is expected after finalization of the Government's discussions with the IMF.

activities to minimize opportunity cost.

### 3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Thirteen office quarters in four Water Supply Schemes constructed at a cost of Rs.33 million had remained idle at the end of the year under review.	Staff quarters to be used in future after repairing as per the requirement.	Actions should be taken to fully utilize the officers' quarters.
(b) All the constructions relating to Iginiyagala and Wadinagala and Damana Water Supply Scheme valued at Rs. Rs.5.5 million and Rs.9 million respectively had remained idled from the year 2001 and necessary actions had not been taken to utilize those assets.	These are abandoned but in the future these will be rehabilitated for use in the future. Iginiyagala submersible pump has been handed over to Mahaoya WSP (MTN 16501). Distribution system has been connected to Paragahakele WSS. Old intake line from wewa is dedicated for optional usages.	Make arrangements to utilize assets effectively.

### 3.6 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) With respect to fourteen foreign funded projects and five local banks' funded projects, a considerable delay ranging from 498 days to 2,510 days was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding, Covid 19, economic crisis etc.	As per the contract conditions of the contract there were price escalation formula by applying within the contract period and the contractor has contractual right to receive price escalation. All price escalations have been paid with the relevant authorization and by following payment conditions.	Actions should be taken to monitor the Project as per the initial agreement when there is no any abnormal situation which is directly impact to the

even after granting extensions ranging from 02 to 08 occasions.

Due to above failures, the Board and the Government had to pay Rs. 19,868 million as price escalation as at 31 December 2023 uneconomically. In addition to that, Projects were incurred uneconomical expenses such as commitment charges, demerges and losses on currency fluctuations.

The contracts there were no Price escalation allowed in the contract are also allowed to consider the price escalation payments as according to the Cabinet Decision No CP/23/0042/618/003 dated 07/02/2023 and the observations given by the Minister of Finance in his observations dated 25.01.2023

Project activities.

### 3.7 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) The Board had paid additional amount of Rs. 67 million as commitment charges through Greater Colombo water and waste water management improvement investment project's funds without having approval of the funding agency for the procurement of Water Meters to the Board. Therefore cost of the water meter procured through those contracts had been increased by Rs.720.98 or 12.93 per cent. However, the quantity of 44,701 and 253,009 were remained in stock at the end of the year 2022 and 2023 respectively.	According to the situation then prevailed in the country to provide uninterrupted water supply top management has taken a decision to open up L. C through the Contractors Dollar A/C of GCWWMIP project since the BOC did not have sufficient dollar liquidity .to cater the said Tender after the post Covid period and during the economic crisis.	Approval of funding agency should be obtained for activities of out of the scope and take necessary actions to avoid uneconomic cost to the Board.
(b) Even the bid should be cancelled due to lack of effective competition as per the paragraph 7.12 of procurement guideline, Contract for Ruwanwella Water supply Project had been offered in the year 2019 for the one and only bidder. Further, contractor had requested delay charges of Rs.57 million and Rs. 654 million for the first and second extension respectively based on various reasons and requested amount had not been paid up to the 30 <sup>th</sup> March 2024.	The feasibility report for the Ruwanwella WSP was completed in 2012. Consequently, there was a need to adjust the Design Horizon from 2030 to 2040. It's important to note that between 2012 and 2015, there was no requirement to change the Design Horizon as procurement activities commenced three years after the feasibility analysis. If the National Water Supply & Drainage Board (NWS&DB) had modified the Design scope in 2015, it would have resulted in	Procurement procedure should be targeted to select a contractor with best price.

Further, the contractor had requested further delays in procurement claim of USD 127,851 under paragraph of 14.7 and 14.8 of FIDIC guideline due to delay in payment of bills and amount of Rs.55 million overpayment had been paid by the Project due to reduction of length of laying transmission lines from 20.4 km to 5.9 km due to restructuring the project as per the auditors' calculation.

Therefore, the Management of the Project and NWS&DB made the necessary adjustments after project initiation. The cost impact of the time extension due to this variation amounting to Rs. 81.98 Million, was covered by the contract contingencies after obtaining Variation Order approval which is inside the contract.

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| (c) | Procurement of the Hydrated lime 2500 metric tons had been offered with the unfavorable variance of Rs.49.37 million with the estimated price on the approval of procurement committee to the contractor who was not fulfill the pre qualifications as per the requirement of attachment 12 of the bid documents under contract no. Sup&MM/chem/HL-01/2021/22.   | The contract was initially awarded for lowest bidder and the contractor has requested to exemption for parameter manganese content. As a result, the contract was cancelled and the next bidder was considered for the awarding by the DPC with considering the stock out situation, time taken for contract agreement, LC opening delays, manufacturing and shipment period and special committee recommendation. | Cost should be considered when making decisions. |
| (d) | The amount of Rs. 48.97 million had been paid for depreciating the rupee value during the period of delay in opening Letter of credit at the time of economic crisis under contract no. DGM/M&E/WM/15/2021/09 when procurement of water meters. Further, amount of Rs.167.39 million had been spent when compare to the estimated value of Rs.83.58 million for this contract due to non performing the contract by selected contractor. | According to the situation then prevailed in the country to provide uninterrupted water supply top management has taken a decision (Annex 05) to open up L/C through the Contractors Dollar A/C of GCWWMIP project since the BOC did not have sufficient dollar liquidity .to cater the said Tender (Annex 05) after the post Covid period and during the economic crisis.   | Cost should be considered when making decisions  |

### 3.8 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
(a) The four pumps procured at Rs.45.93 million for Kadduwa pump house had not been working properly from the beginning. The board had spent board's funds to rectify the defects identified due to	Regarding the action taken by the Board to recover the cost incurred for corrections of defects, the retention money	Cost incurred by the board and for any defects have to be covered

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| <p>contractor was not attending to correct those defects during the defect liability period. However, action had not been taken by the Board to recover the cost incurred by the Board for corrections of defects and for breaching the contract conditions even defect liability period is lapse on 22 April 2022.</p>   | <p>owed to the contractor as compensation for losses has not been paid</p>  | <p>through the retention money and performance Bond.</p>  |
| <p>(b) The Board had mutually terminated the Mathara stage IV on going Water Supply as per the recommendations of committee on Re strategizing and acceleration of Mega Projects without taking action against the contractor who had failed to complete the balance works. The board had paid Rs.72.7 million and USD 2.1 million as delay charges under this Project due to delay in acquisition of the Land. Further amount of Rs.1,715 million had been paid as exchange rate differences on delay the Project as results of informal decision taken. Further amount of Rs.30 million had been paid for one year period for contract employees after the termination of project contract without obtaining the approval from the Management Service department.</p> | <p>Approval of mutual termination of Matara Stage IV WSP has been given by Board of Directors. Land Owner was filed court case against NWSDB and the project was delayed due to Covid 19 Pandemic and Financial crisis of the country. Operation &amp; Maintenance work as these works are essential work which can't be carried out with existing staff.</p> | <p>Clearance of the land should have to be done before entering in to the contract agreement to avoid unnecessary delays and cost to the Board.</p> |
| <p>(c) Time extension for the Kandy North - Pathadumbara water supply project had not been given by the donor even the financial completion period had been over as at 28 May 2023. Physical progress of the Project is 88 percent and outstanding contract value is Rs.12 billion. Pump house and 25 service tank were unable to operate due to electricity connection had not been given due to nonpayment of Rs.102 million connection charges. 16 pumps and 6 generators procured at USD 8,840,917 and installed had not been used. Number of 15 bulk meters and 132 valves had been planned to install by the Project. Only 15 bulk meters had been installed.</p>   | <p>The inability to conduct testing for both generators and pumps stems from the delayed completion of critical works due to the contractor's non-payment. The mentioned valves have been imported and supplied to the project had to face a financial problem.</p>   | <p>Fund should be provided to complete the Project to achieve the objectives from Project.</p>  |
| <p>(d) Aluthgama, Mathugama, and Agalawaththa Integrated Water Supply Project had only achieved 95.34 percent progress even with the 08 extension from the initial completion date of 14 May 2020. Operation of the old intake had been stopped due to new pump installed by the contractor is not in a working condition on high vibration and installation</p>  | <p>08 Nos. of extensions have been given to the Contractor due to various uncontrollable reasons. Presently, the Contractor is investigating the reasons for vibration and necessary</p>  | <p>Claim the unnecessary expenses incurred by the Board due to defects of contract and correct the defects from the</p>                             |

defaults. As a result of failure of new pump, the Board had pumped the water from new intake at Kolemodara to Kethhena Treatment Plant which is situated away from 15.5 km from the treatment plant. Due to this, Board had incurred additional electricity cost of Rs.106 million during inactive period in old intake. remedial measures are being taken. contractor during the defect liability period.

- (e) The Board had made payment on visible quality inspection report submitted by the committee appointed to check the quality of DI pipe supplied and distribute under the contract agreement at value of Rs.19 million against the General condition 08 of the contract agreement. However, audit check revealed that the acceptable level quality was not in DI pipes due to leak the water in the planges of the 10 DI pipes out of the 95 DI pipes were exist at the physical inspection. The inspection of the quality of the goods supplied is carried out by the relevant water board staff. The relevant pipes will be checked, and it is not just a quantity test as mentioned in this audit query. Procedure should be developed to check the quality than visual quality inspection at the time of supply received.
- (f) Procurement committees had not been confirmed the funds availability at the beginning of the Water for all Projects. Therefore, only 6 or less than 6 per cent progress was achieved in 106 activities out of 475 planned activities as at 31 December 2023 as per the information provided by the Project information system. Further, amount of Rs.5,198.89 million valued HDPE pipe imported for this Project is remained as at 31 December 2023 in the stocks insecurely throughout the island wide due to improper management. Agreed. Procurement Committee should ensure the feasibility of Projects before utilize the funds.

### 3.9 Resources Released to Other Organization

Audit Issue	Management Comment	Recommendation
<p>The Board should reimburse amount of Rs.263.33 million including Rs.24.34 million paid for the year under review from the Line ministry for the employees who have released informal way to the Line Ministry from the year 2015.</p>	<p>As per the requests received from line ministry employees were released. Every month requests are being sent to the line Ministry to reimburse the salary being paid to the released employees. Ministry has informed they will release this amount gradually. Since NWS&amp;DB is not being</p>	<p>Comply with the requirements of the operational manual.</p>
<p>The amount of Rs.5 million had been paid as</p>		

salaries for the employee released to President office from 2020 to end of the year under review without being recovered. Further one employee had been released to Prime Minister's office without paying the salary since 22 July 2022.

reimbursed by line ministry, some employees were assigned back to NWS&DB.

Action is being taken to get that vehicles back to the board.

Further six vehicles valued at Rs.66.47 million had been released to the line ministry and One vehicle valued at Rs.39.26 million out of them had been utilized by the coordinating secretary of the Minister of line ministry since the time of importing in 2019 without use for the Project purpose.

### 3.10 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) According to the information submitted, there were 2,625 shortages of employees and 104 excess of employees as at 31 December 2023 and 21 designations were totally vacant. However, Board had not reviewed the carder requirement to meet the manpower requirement of the Board.	The approval of the Management Services Department has been requested to update the staffing plan to suit the current requirements and increase the necessary staff, but no approval has been received so far. Furthermore, as government recruitment has been stopped at present, even though there is a need for employees, it has not been possible to carry out the recruitment.	Recruit adequate staff to the Board or amend the approved cadre of the board after proper evaluation of the cadre requirement.
(b) The board had assigned and paid for eleven employees recruited on contract basis for Mathara Stage IV Project to duties of the Board contrary to the para No.2.2.7 and 07 of the circular no 01/2016 dated 24 March 2016 and its amendments from January 2023 without obtaining approval of Management service Department.	Board has applied Project staff for O&M activities. 11 Nos of Project Staff have been assigned to Regional Support Centre. Operation & Maintenance work as these works are essential work which can't be carried out with existing staff.	Approval should be obtained prior to commencement of the Project.
(c) The Board had not comply with the requirements of the transfer policy	The task force has invited applications for mandatory transfer	Develop data base immediately for

and as a sample audit, 273 employees out of the 591 employees of the Western south region are being working between 07 years to 38 years in the same place contrary to the 05 years requirement. Further, Human resource division had not been maintained proper data base for each and every employee.

consideration, and the program is scheduled to be implemented soon.

transfers of employees for the benefits of employees.

- (d) Only 49 complaints had been solved out of the 144 complaints received to investigation unit by employees from 2022 January to August 2023 due to shortages of the investigation officers
- 10 investigation officers has been appointed on 15.09.2023 assignment basis with the board approval. Accordingly, from January 2022 to August 2023, out of the complaints received till date, 137 complaints have been referred for basic proceedings. Out of those complains, 102 of them have been completed by now.
- Need to expedite the resolution procedure to develop confidence among employees.

### 3.11 Management of vehicle fleet

Audit Issue	Management Comment	Recommendation
196 of vehicles which were disposed by the Board are still registered in Department of Motor Traffic under the name of the Board and 23 vehicles registered cannot be identified.	Letters were sent to the Department of Motor Traffic to change the ownership with the details of transferees and Regional Support Centers to provide the vehicle details.	Immediate action should be taken on this matter to avoid unnecessary obligations and fraud.

## 4. Accountability and Good Governance

### 4.1 Accountability

Audit Issue	Management Comment	Recommendation
The Chairman of the board had chaired the procurement committee in which the decision taken to offer the contract to a company which had direct connection with the Chairman of the Board for the procurement of the solar system at contact value of Rs.73 million even the Chairman had not disclosed the indirect interest regarding this contract as per the	Competitive bidding procedure has been followed as per the National Procurement Guideline.	Need to disclose any direct or indirect interest with the Board.



requirements of the Section 05 (04) of the National water supply & Drainage Board Law No.02 of 1974.

#### 4.2 Corporate plan & Action plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>As per Corporate Plan for 2020-2025 a new connection target of had been established for the year in combined with “water for all” concept under the National Policy Framework and later the target had been amended to 160,000 during the year. However, 115,509 numbers of new connections were given during the year. Further, the metered sales revenue had been increased by 77 per cent as compared with the preceding year even the number of new connection had been decreased by 24.61 per cent as compared with the preceding year. Main reason for the sales growth is increasing the tariff charges on 01 September 2023. Percentage of 25.32 had been achieved against the target percentage of 23.91 established for non-revenue water for the year 2023 and Non-revenue water per cent age of southern and central Regional support centers is more than the 30 per cent during the year under review.</p>	<p>The targeted connection for year 2023 couldn't not achieve due to Excessive price escalation after the award of the contracts &amp; Government procurement restrictions enforced due to economic crisis. We maintained a consistent growth target in our new connections from 2015 to 2022, averaging 136,000 connections per year. Despite challenges, our performance remained stable, with 115,500 connections added in 2023. This continuity underscores our commitment to seamless expansion in providing essential services without significant deviation from our established growth pattern.</p>	<p>Achievable target should be established to direct the organization correct way.</p>

#### 4.3 Audit Committee

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Even the directors should be independent as per the requirement of 4.4.1 of hand book on good governance for chairman and directors of Public Enterprises issued by National Human Resources Development council of SriLanka; the former General Manager of the Board had been appointed as a Member of the Governing body and as a member of Audit Committee just after the retirement from October 2023. However, it had not</p>	<p>This member has been appointed as member of Audit Committee.</p>	<p>Action should be taken to maintain independency of Director Board.</p>

been disclosed in the financial statements. Retirement benefits had been given to her during the year 2023 is Rs.6.25 million.

#### 4.4 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
<p>In line with the Sustainable Development Goal (SDG) no. 6 the Board had been developed the corporate plan to achieve the 100 per cent pipe borne water coverage by 2025. Towards the achieve this goal the board had been recognized 08 targets and 08 indicators and out of these targets the board had expected to achieve 100 per cent target of empowering legal framework of water sector, increase household and non-domestic pipe water coverage by 313,217 and increase pipe sewerage coverage by 867 during the year under review and However, only 60 percent empowering legal framework of water sector , 187,339 water connections and 338 sewerage connections had been achieved as at 31 December 2023.</p>	<p>The Corporate Plan for 2020-2025, Originally built upon the “Water for All” program, faced interruptions due to the prevailing economic crisis. Consequently, The scope of WFA Program was down sized and Priority was shifted towards the Capacity Enhancement and Distribution Expansion (CEDE) projects focusing solely on optimizing existing water supply schemes to enhance capacity and quality by 2025.</p>	<p>Action should be taken to achieve agreed goals.</p>