

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 2023 comprising the statement of financial position as at 31 December 2023 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 31 May 2024 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 31 May 2024 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 2023, 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 1.6.3(a) of the Auditor General's Summary Report of the year 2022 according to Section 11(1) of the National Audit Act No. 19 of 2018	04 motor vehicles worth Rs. 10.70 million which were included in transport equipment worth Rs.74.77 million in the SA-82 Non-Financial Assets report of the financial statements for the year ending December 31, 2022 should be formally taken over and included in the fixed assets register.	Paragraph 1.6.1(b)

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Recurrent expenses

The following deficiencies were observed while accounting for recurrent expenses related to financial statements.

Audit Observation	Comments of the Accounting Officer	Recommendation
According to sub-section 6 of Public Accounts Guide No. 05/2023 dated November 30, 2023, the variance between the initial and revised cost estimates submitted with the financial statements was not included Rs.8 million for travelling expenses and Rs.750,000 for other services totaling Rs.8.76 million for transfers through F.R. 66, in the statement for variances of the year 2023.	Officers were informed to ensure correct completion of Form ACA 2(iii) while preparing final accounts in future years.	Financial statements should be prepared as per circular instructions.

(b) Property plant and equipment

The following deficiencies were discovered while accounting for property, plant and equipment.

Audit Observation	Comments of the Accounting Officer	Recommendation
04 motor vehicles worth Rs.10.70 million were also included in the transport equipment worth Rs.73 million included in the report on non-financial assets in the financial statements.	The Community Water Supply and Sanitation Project and the Lunawa Environmental Promotion and Community Development Project owned by these 04 vehicles have now been completed and letters have been submitted to the Department of Motor Traffic asking for the necessary documents to take over the ownership.	Necessary measures should be taken to formally take over the assets belonging to other organizations that are being used and include them in the financial statements.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Due to the preparation of estimates without paying attention to the financial regulation 50 of the Democratic Socialist Republic of Sri Lanka, the allocations ranging from 12 percent to 95 percent of the allocations reserved for 18 expenditure votes had been left.	In 2023, the financial progress has been reduced due to the restriction of spending according to the expenditure management circulars issued by the government, the inability to implement development projects as planned and the delay in getting external resources to implement the projects.	Estimates should be prepared after ascertaining the provision requirement as per the monetary regulations.
(b) 6.6 million rupees which is 66 percent of the foreign grants received by the United Nations International Children's Emergency Fund (UNICEF) for the development of the country's infrastructure,	Delays in getting external resources to implement projects have slowed financial progress. Also, when projects related to this program were carried out by external organizations, there were delays in completing the project and delays in raising	Proper attention of the management should be directed to spend this money received as foreign grants for the relevant purposes.

remained unutilized for the bills to pay in the year 2023. related tasks. A significant provision was left annually from the provision received by this fund and the provision left in the previous year was Rs.2.32 million.

2.2 Utilization of funds received by other Ministries and Departments.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The Ministry of Housing and Urban Development and the Ministry of Water Supply and Estate Infrastructure Development have allocated Rs.389 million for the implementation of rural water projects and Rs.217 million which was 56 percent of the total allocation was not used in the year 2023. Also the information about it was not recorded in the vote ledger.</p>	<p>Due to the landslides that occurred at this construction site, the projects were delayed until the recommendations were received from the National Building Research Institute and instead of the new projects that were approved later, the allocations were left over the estimated amount after the procurement was done.</p>	<p>The management should work responsibly to utilize the allocations for the given tasks, provided by other ministries and departments for the implementation of rural water projects.</p>

2.3 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
<p>(i) Although the Accounting Officer should ensure that all audit queries are answered within the specified time limits as required by the Auditor General, the audit queries were not answered as per paragraph 3.7 of the report.</p>	<p>Since the audit queries have to be checked and answered, it will be late to submit the answers before the date mentioned in the audit.</p>	<p>Should be act in terms of provisions in Section 38 of National Audit Act no 19 of 2018.</p>

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| (ii) 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. | The functions of the Internal Audit Division are temporarily being carried out by the Internal Audit Division of the Ministry of Water Supply and it is proposed to create the post of Internal Auditor as a Grade I post in the Sri Lanka Accountancy Service. | Arrangements should be made to streamline the internal audit activities of the department according to the provisions in the National Audit Act No. 19 of 2018. |
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2.4 Non-compliance with laws, rules and regulations

Cases of non-compliance with the provisions of laws, rules and regulations observed during sample audits are analyzed below.

Reference to laws, rules and regulations	Non compliance	Comments of the Accounting Officer	Recommendation
565(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The deposit ledger maintained by the Department was not maintained up-to-date by recording monthly receipts, payments and preparing balance summaries as per the financial regulation.	At the end of every month, the balancing account will be recorded in the deposit account from the year 2024.	Should be done according to the financial regulation.

2.5 Irregular Transactions

Audit observations	Comments of the Accounting Officer	Recommendations
A three-member committee consisting of two representatives nominated by the Head of the Department and the Regional Secretary of the area may award water supply project construction contracts to community-based organizations as per Section 3.1 of Finance Circular No. 01/2012 dated January 05, 2012 and Section 2.1 of Circular No. 01/2021 dated September 29, 2021. Nevertheless, the	Although contracts were awarded to community-based organizations with 20 percent community contribution in stages during the implementation of projects in 2019, contracts have been awarded only to community-based organizations that benefit from the relevant project registered in the department from 2021.	The awarding of contracts without following a formal system has directly affected the failure of projects, so necessary disciplinary action should be taken against the responsible officials.

construction works of 05 water projects in Mathale district with an estimated total value of 48 million rupees had been awarded to community based organizations on the recommendations of the District Officer-in-Charge. Although these 05 water projects were expected to provide water to 970 families, water supply was actually provided to only 377 families and there were no reports confirming that the water was clean drinking water. Due to insufficient water supply from tube wells constructed in two projects, other water sources had to be used.

While planning a project, even if the relevant project is started based on the number of families who need water in that area, after the completion of the project, all the members will get water connections at the same time.

Tube wells based on ground water are prone to seepage especially during droughts.

2.6 Deposit Balances

Audit observations	Comments of the Accounting Officer	Recommendations
<p>The amount received by the department from other institutions for the implementation of water projects and kept in the deposit account the balance for more than 2 years was Rs.30 million by December 31, 2023 and the completed projects had not been identified and the balances had not been apportioned in accordance with Financial Regulation 571.</p>	<p>After completing the work, the remaining money will transfer of all the projects to the relevant institutions or credit it to the government revenue before June 30, 2024 according to the fianacial regulations.</p>	<p>Should be act as per financial regulations.</p>

3. Operational Review

3.1 vision and mission

Audit observation	Comments of the Accounts Officer	Recommendation
Although 9½ years have passed since the cabinet approved the bill for the establishment of the National Community Water Supply Department, the bill had not been adopted by the end of the year under review. Therefore, the department did not have the legal background to carry out the tasks mentioned in the cabinet paper related to starting the department.	The Department of legal draftsman has prepared the final draft for which observations are being made to be forwarded as soon as possible.	The passing of the bill should be expedited and the necessary legal background should be created to maintain the functions of the department in a formal manner.

3.2 Failure to Perform Duties

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In the Madampe South Community Water Project in Ratnapura District, which construction was started in the year 2021, a sidewall was built for the pump house at a cost of Rs.531,137, but the amount spent was idle due to that was not built.	Madampe South Godakawela, pump house is proposed to be built, so a side wall has been built for it.	The project should be completed promptly and water should be provided to the beneficiary families.
(b) Government funds were misused by overpaying 1.4 million rupees for the unfulfilled work of 05 water projects built in Balangoda, Pelmadulla, Ayagama and Madampe in Ratnapura district.	Due to the high height of the roof of the Balangoda Wikiliyawatta Community based Water Scheme, it was difficult to carry out the measurements correctly and then the measurements were carried out correctly and the payments were made through the final bills.	Necessary disciplinary action should be taken against the responsible officers to ensure payment for unfulfilled work.

- (c) Although water quality tests should be done as per Sri Lanka Standards Institute No. 614: 2013 “Specification for Drinking Water” and according to the Cabinet Memorandum No. 17/2014 dated March 13, 2014 related to the establishment of the Department, although water quality tests should be done, according to the physical audit observations, out of the 92 water supply projects that were started and completed in 2019, water quality tests were not done in 12 projects and as of September 2023, the last water test of 05 projects had been done for 04 years earlier. Also, water quality tests were done in 08 projects one year ago, 06 projects 02 years ago, 08 projects 03 years ago and only 28 projects had water quality testing done in the year 2023.
- Testing of 02 free water samples annually to check the quality of water by the department, 17 small-scale laboratories with modern facilities have been established and facilities have been provided to test water samples in a convenient manner, all community based organizations have been informed and trained by the development officers and a series of special guidelines have been issued.
- Since the basic role of the department is to provide clean drinking water to the people, the methods introduced for that should be maintained with good supervision.
- (d) The water supply and sanitation improvement project supported by the World Bank provided 17 mini-labs worth Rs.50 million to the department and placed them in 10 districts, due to issues such as the lack of chemicals, lack of batteries, 7 testing laboratories are not in working condition, out of which 2 water testing laboratories have been assigned to the National Water Supply and Drainage Board and the Badulla
- Out of the 17 water testing laboratories provided under World Bank assistance, only 11 water testing laboratories have been given to the department, Out of those water testing laboratories, the water testing laboratories given to the districts of Ratnapura, Monaragala, Nuwara Eliya, Polonnaruwa, and Puttalam are operational.
- Defects in these equipment should be identified and necessary repairs should be made to provide clean drinking water.
- Out of the two water testing laboratories given to Kegalle district, the Udugoda water testing laboratory has been

municipal Council.

assigned to the National Water Supply and Drainage Board and only the Kotiakumbura water testing laboratory remains inactive. The water testing laboratories given to Nildiyawara Community based Organization in Badulla and Kurunegala Kumbukgate are in operation.

(e) 03 projects in Puttalam and Kegalle districts were built at a total cost of Rs.26.6 million, due to the filling of sand in the tube well of one project and the water source identified at the beginning of 02 projects is subject to drying up during the dry season, alternative methods were used to distribute water and there was no confirmation that the water is clean drinking water when choosing those alternative sources. 1,518 beneficiary families were being supplied with drinking water by 11 other water projects which had been confirmed to be unfit for use as per the audited sample water quality reports.

It is natural for many small-scale water projects to experience such situations regularly during the dry season. In relation to such identified problems, a program has been implemented jointly with the Water Resources Board under the provisions of the Ministry and the Department.

Since the quality of the water provided by the 7 projects implemented in Kurunegala, Hambantota, Puttalam and Anuradhapura districts is poor, the community has been informed to boil water for drinking and chlorination, and to promote the water quality of the projects in Gampaha and Kalutara districts.

In addition, 6325 kg of chlorine has been given to community based organizations on UNICEF allocation.

Due to the implementation of these projects, the government incurs losses as well as the failure to fulfill the needs of the people who are expected to benefit by not doing the work in a proper standard.

3.3 Not gaining expected outcomes

The following observations are made.

Audit observation	Comments of the Accounting Officer	Recommendation
(a) The estimated cost of providing clean drinking water to 220 families was started at Rs.7 million in	In this regard, a three-member committee has examined the relevant matters and sent the investigation report to you on	A formal investigation should be conducted on the matters included in the audit observations and disciplinary

2019, the construction work of Opalgala Methsith water project in Mathale district was given to 04 community water organizations and although 7 million rupees were spent on the construction of the project, only 5 family units were supplied with water. This project was handed over to the people on October 6, 2020 and it was not confirmed that clean drinking water was provided from the beginning. It was reported that the water samples obtained from this were unfit for use when tested by the laboratories of the National Water Supply and Drainage Board. According to the audit and physical inspection, the government had incurred losses by paying Rs.1.2 million for the construction and installation work that had not been completed in this project without inspection.

May 10, 2024.

action should be taken against the officers who are responsible for the related losses.

- (b) Under the “praja jala abhimani” program in Matale district in the year 2019 with a total expenditure of Rs.41 million, two of the 04 community water projects that had been started had to use other water sources due to the lack of sufficient water supply from the tube wells that had been built and the Rs.2 million had been settled.
- While planning a project, the project is started based on the number of families who need water in that area, but after the completion of the project, it is not practical for all members to get water connections at the same time.
- A formal investigation should be conducted on the matters included in the audit observations and necessary disciplinary action should be taken against the officials who are responsible for the related losses.

3.4 Abandon of Projects without Completion

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In the year 2021, Kurunegala district had entered into agreements with a private company to construct 09 community water projects with a total estimated value of Rs.78 million. The contract was awarded without regard to the technical ability, adequacy of machinery and previous experience of this contractor. Accordingly, out of the 9 contracts awarded by February 2024, the construction of 6 contracts with an estimated value of Rs.51 million had been abandoned and the contracts had been terminated by mutual agreement and the total amount spent on those contracts was Rs.38 million.	Due to the excessive increase in the price of construction materials during the economic crisis that arose in the country, since the contracted companies did not perform the contracted works, they are working to cancel the contract based on mutual agreement with the contractor.	A formal investigation should be conducted regarding the irregularity that has taken place in the procurement process and if there is any loss to the government, necessary disciplinary action should be taken against the responsible officials.
(b) Although 3 months to 15 months have passed since the completion of the construction of 3 water tanks built at a cost of Rs.15 million for the Sada Diya Prajamula Organization in Kurunegala district and the Raowa Paniya water project by March 2024, the relevant water connection has not been provided after the completion of the project. These tanks had fallen into disrepair after being unused.	The construction works are to be completed in stages according to the amount of funds received for the Sada Diya Community Foundation and the Rambewa drinking water project.	Projects should be started according to the existing provisions and necessary steps should be taken to provide water to the people by completing the started projects promptly.

- (c) In the Kurunegala district, 19 community water projects started in the years 2019, 2020 and 2021 had been completed and the beneficiaries could not be supplied with drinking water. As of December 31, 2023, 106 million rupees had been spent on 14 projects. Also, the construction work of 11 community water projects started in the year 2021 in the districts of Puttalam, Trincomalee, Mathale, Batticaloa and Galle was stopped and at that time the amount of Rs.18.6 million incurred by the department for those projects was also had canceled.
- The construction works are to be completed in phases according to the amount of money allocated for the unfinished projects. -Do-
- (d) In Anuradhapura district, it was planned to install Nano-purification machines for 08 community water projects in the year 2021 and 2022 at a cost of Rs.19 million, out of those projects, the refinery buildings related to 03 projects had been stopped in the middle without completing the construction work for more than 02 years. Accordingly, the total cost of Rs.6.6 million spent by the department had been idle.
- It was planned to establish 08 projects in the year 2021 and 2022 in Anuradhapura district and the construction work of 03 has started. The relevant construction company has been informed to finish the construction work immediately.
- According to the procedural directives mentioned in the procurement guidelines, the contractors should be selected and necessary disciplinary action should be taken against the officials who awarded the contracts without paying attention to the financial and performance of the contractors.

3.5 Delays in Project Execution

Audit observation	Comments of the Accounting Officer	Recommendation
Matara, Weligama Poramba Kananke (South) community water supply project with an estimated value of Rs.56 million was started on November 8, 2019 and the	Requests have been made from the Ministry of Water Supply and Estate Infrastructure Development to conduct an investigation regarding this	Project construction works should be expedited and necessary action should be taken against the officials responsible for the additional cost incurred on account of

construction work was divided into 08 parts and assigned to the Community based Organization. Due to the increase in the market prices due to the non-completion of 02 work subjects of the project before the scheduled date, new estimates had to be prepared which were Rs.7 million more than the original estimate. As at December 31, 2023, Rs.27 million had been spent on this project and although 4 years had passed, the project was not completed and the amount spent for it was becoming a net expense.

delay.

3.6 Annual Performance Report

The Annual Performance Report should have been prepared in accordance with the format mentioned in Guideline No.14 issued by the State Finance Department in accordance with paragraph 10.2 of State Finance Circular No. 2/2020 dated August 28, 2020. The following observations are made in this regard.

Audit observation	Comments of the Accounting Officer	Recommendation
(a)According to the format mentioned in Guideline No. 14 issued by the State Finance Department in accordance with paragraph 10.2 of State Finance Circular No. 2/2020 dated August 28, 2020, the annual performance report of the Department of Community Water Supply, the Department had not prepared sufficient work arrangements to compile constitutions and agreements for community-based organizations, which were identified as its main functions.	A constitution has been prepared for each community-based organization and the district offices supervise the implementation of those constitutions.	The required performance level should be achieved according to the annual action plan prepared by the department.

<p>(b) In the draft performance report, the compliance report stated that there were 19 non-compliant cases, and 482 approved projects based on the department's allocations as 2.1 and 2.1.2 of the report as 382. Accordingly, it was further observed that certain facts included in the performance report submitted to the audit were incorrect.</p>	<p>As per the draft report forwarded to you, the non-conforming cases which were recorded as compliant were re-examined and noted for correction.</p>	<p>Correct information should be entered while preparing the performance report.</p>
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3.7 Failure to Respond to Audit Quarries

Description of the audit query	Comments of the Accounting Officer	Recommendation
<p>An audit query issued on 04 December 2023 had not been answered by 30 April 2024.</p>	<p>Will be answered as soon as possible.</p>	<p>It is the management's responsibility to provide prompt answers to audit queries.</p>

4. Good Governance

4.1 Internal Audit

Audit observation	Comments of the Accounting Officer	Recommendation
<p>In accordance with Section 40 of the Audit and Management Department Circular No. DMA/01-2019 No. DMA/01-2019 dated January 12, 2019 and Section 40 of the National Audit Act No. 19 of 2018, there was no adequate internal inspection of the department's activities.</p>	<p>The work of the internal audit section of this department is being temporarily carried out by the internal audit section of the Ministry of Water Supply.</p>	<p>Appointing a suitable internal auditor and setting up an internal audit unit and carrying out inspection activities.</p>

5. Human Resources Management

Audit observation	Comments of the Accounting Officer	Recommendation
The number of vacancies in all categories including 18 posts out of 36 senior level approved posts was about 14 percent. However, an excess of 72 employees and 09 employees hired on contract basis for approved positions were also observed.	Requests have been made through letters to fill up the available vacancies in the department. But, with the restriction on new recruitment in the civil service, the posting of officers did not take place. The officers have been recruited on contract basis after obtaining approval to perform essential duties. Also, the Management Services Department has been directed to create 50 new posts for redundant development officer posts and requests have been made to revise the currently approved number of surveyor and geoscientist posts.	Necessary measures should be taken to maintain the staff required for the operation in the department.