

1.1 Qualified Opinion

The audit of the financial statements of the Mahaweli Authority of Sri Lanka and its Subsidiaries for the year ended 31 December 2019 comprising the statements of financial position as at 31 December 2019 and the statements of comprehensive income, statements 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements of the Authority and its Subsidiaries give a true and fair view of the financial position as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards(SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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

In preparing the financial statements, Management is responsible for assessing the Authority’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 Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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.

1.4 Auditor's Responsibility in Auditing Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Authority'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 to cease to continue as a going concern.
- 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.

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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following Observations are made.

Non - compliance With Reference to Applicable Standards	Comments of the Management	Recommendation
(a) Even though the Authority had followed the Sri Lanka Public Sector Accounting Standards and its subsidiaries had followed the Accounting Standards for the Small and Medium Sized Enterprises, the impact to the financial statements due to the basis adopted by the Companies had not been disclosed.	Accepted. will be disclosed the year 2020 with the financial statements.	The impact occurred to the consolidated financial statements as a result of the accounting standards followed by the companies should be disclosed.
(b) According to the Sri Lanka Public Sector Accounting Standard No.3, quantitative previous period errors should be restored with the comparable comparative value of the financial statements approved for issuance after detection of errors and before the financial statement are	The impact of profits on the adjustment for the previous year will be highlighted separately in the financial performance statement 2020.	Action should be taken to disclose inventory valuation details and accounting policy in the financial Statements.

disclosed to the nature of the errors and correction to made adjustment should be disclosed in the financial statements, although the Moragahakanda Hydro Power Plant received income as per the previous year was of Rs.496,770,000 adjustment had been made in the financial statements for the year under review it had not been done so.

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| <p>(c) According to the Sri Lanka Public Sector Accounting Standards No. 01, the valuation of the stock of agricultural and livestock including to financial statement of Rs.210,567,000 the relevant accounting policy were not disclosed in the financial statements.</p> | <p>Actions should be taken a note on how the value of livestock stock was assessed in accordance with Sri Lanka Public Sector Accounting Standards No. 01 had been disclosed in the Financial Statements for the year ended 31 December 2019.</p> | <p>Action should be taken to disclose inventory valuation details and accounting policy in financial statements.</p> |
| <p>(d) Although the relevant property, plant and equipment class should be revaluation of during the revaluation Property Plant and Equipment in accordance with paragraph, 49 of 07 Public Sector Accounting Standards of Sri Lanka, during the Authority's Vehicle revaluation conducted on 01 January 2019, contrary to the terms of standard the cost incurred by the maintenance division and Head Office was Rs.175,599,150 and Rs.60,648,350 respectively vehicle were revaluated and had not been mentioned in the financial statements.</p> | <p>Compared to other offices of the Mahaweli Authority of Sri Lanka, the Engineering Offices in the Operations Division of Main Dams and Reservoirs are spread over several districts and the motor inspectors in those districts should be involved in the vehicle revaluation. It was difficult for them to get involved due to the multiplicity of their duties. However, by now all the engineering offices in charge have completed the revaluation work. Accordingly, will take action to show in the financial statements for the year 2020.</p> | <p>Correction should be made in accordance with the Sri Lanka Public Sector Accounting Standards.</p> |

- (e) According to paragraph 47 of 07 of the Public Sector Accounting Standards of Sri Lanka, the fair value should be revalued and accounted for assets that change significantly and change rapidly, but the cost purchased by the Authority during the period 1984-1989 was amounting to Rs.64,320,853 Two plots of Land no such action had been taken in respect and their costs had not been accounted.
- Purchased by the Mahaweli Authority for Rs.64,320,853 at Colombo 10, TB Jaya Mawatha, No. 500 and No. 493 has been referred to the Department of valuation to obtain the assessed value of 02 plots of land and action will be taken the accounts after receiving the assessed values.
- Steps should be taken to account for the assets belonging to the Authority.

1.5.2 Accounting Policies

Audit Observations	Comments of the Management	Recommendation
An appropriate accounting policy had not been introduced to identify and account for assets of a capital nature generated from rehabilitation and up gradation costs.	This has been disclosed under the Accounting Policies of the Consolidated Financial Statement for the last year dated 31 December 2019 and action will be taken to make the Region / Divisions aware of such accounting.	An appropriate accounting policy should be introduced to account for assets of a capital nature generated from rehabilitation and upgradation costs.

1.5.3 Accounting deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
(a) According to note of the consolidated financial statements, 12 major dams and 919 km of main canals, 7,789 km of other canals, 463 tanks and 1,127.5 km of roads at a cost of Rs.82.61 billion maintained by the Mahawali Authority, the assets were not assessed and stated in the	The cost of the main canals, dams, canals and other canals and tanks is Rs.82.61 billion as per the notes submitted with the consolidated financial statements for the year 2019. If such assets are not assessed by the Department of Valuation will assess	Steps should be taken to account for assets belonging to the Authority.

financial statements. Also, the assets of the Moragahakanda tank Project which was taken over by the Authority on 21 December 2018 were not mentioned in the financial statements.

them by an internal committee of Chartered Engineers and Chartered Assessor appointed by me and make adjustments to the financial statements for future years. Moragahakanda Kalu Ganga Development Project had been handed over to the Mahaweli Authority of Sri Lanka will be taken to necessary steps to include of the Moragahakanda Reservoir Project assets and related depreciation amounting to Rs.49,106,673,124 in the financial statements for the year 2020.

- (b) During the period 2015 - 2018 at a cost of Rs.80,000,000. thirty water treatment plants constructed in Welikanda and Welioya areas had not been accounted for as fixed assets and had not been mentioned in the financial statements. L Zone & B Zone of the Mahaweli Authority of Sri Lanka had been constructed value of Rs.80 million M. 30 water purifiers had been handed over to the Mahaweli Authority of Sri Lanka by the National Public Water Supply Department. Will work to adjusted in the financial statements for the year 2020. Steps should be taken to account for assets belonging to the Authority.
- (c) The Dam Protection and Water Resources Planning Project had been constructed a cost of Rs.499,421,968 incurred to Authority, Office Building Kotmale and Polgolla have been used by the Authority since 2019, but those office accounted for as fixed assets of the Authority and Building had not been mentioned in the financial statements. Will adjust the values of the buildings constructed at the Polgolla and Kotmale functional engineering offices to adjusted in the financial statements for the year 2020. Action should be taken to account for assets belonging to the Authority.

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| (d) | Receivables from small scale hydro power plants during the year under review were Rs.22,557,702 royalty income accounted and had not been mention in the financial statements. | The time of preparation of the final account of Rs.65,017,306 had been recorded as receivable income from small scale hydro power plants and in making payments by the Ceylon Electricity Board Rs.81,836,484 had been received. The difference has already been corrected by a journal entry in 2020. | Action should be taken to correct financial statements. |
| (e) | The construction of the Murawasihena Divisional Office in the Walawa Zone which had not been completed, Rs.3,518,278 had been spend for the year under review, as instead of being accounted as capital work – in – progress, captial rehabilitation upgrade as were cut as an expenditure. | The construction of the Murawasihena Divisional Office has not been completed yet. Therefore, those expenses had been disclosed as capital work – in – progress. Will correct in 2020. | Action should be taken to correct financial statements. |
| (f) | The estimated value of the assets provided to the Authority by the Dam Safety and Water Resources Planning Project is Rs.14,040,500 but it had been shown Rs.26,533,300 in the accounts. Further, a asset Rs.1,800,000 value of Rs.18,000,000 as stated in the financial statements. Due to those reasons, the property, plant and equipment cost overstated Rs.28,692,800 had been shown in the financial statements. | Action has been taken to correct this by 2020. | Action should be taken to correct in the financial statements. |
| (g) | The Cost to handing over to the Authority from the Dam Safety and Water Resources Planning Project Rs.671,503,748 fixed assets at Rs.478,699,000 had been | The value of the assets provided by the project as creditors had been shown Rs.398,346,892 and the revaluation value was Rs.478,699,000 the | Steps should be taken to properly accept and accounted for assets. |

revaluated and accounted for but the remaining assets had not been revaluated and accounted. Also, although the value of these assets should be stated in the financial statements as a grant, under Rs.398,346,892 as due to understated Rs.80,352,108 was added to the liabilities and the grant was understated same amount. Further, under the management facilities of this project, the Authority had received Rs.4,369,384 assets of were also not mentioned in the financial statements.

difference between is Rs.80,352,108, will inform the relevant regions of correct it and take action to adjust it in the financial statements for the year 2020. Inform that the assets of Rs. 4,369,384 given to the Mahaweli Authority of Sri Lanka by various contracts under this project.; the Dam Saftey and Water Resources Planning Project has not formally handed over to the Authority

- (h) According to the Authority's Property Plant and Equipment Depreciation Policy, Motor Vehicle should be depreciated after a 10 percent reduction in debris, but six zones had not done so, as a result the depreciation expenditure for the year under review was Rs.6,116,990 overstate were mentioned in the financial statements.
- Will take steps to rectify the error in the financial statements for the year 2020 as the value had been accounted without deducting depreciation from that value after conducting a motor vehicle revaluation in 06 zones.
- Action should be taken to correct in the financial statements.

1.5.4 Unreconciled Accounts or Reports

Items	Value as per financial statement	Value as per corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Mahaweli Agro Enterprises Company	413,981,000	416,132,219	2,151,219	According to the consolidated financial statements of 31 December 2019 Mahaweli Livestock Company, the difference of Rs.2,151,219. The	Actions should be taken check the difference and to correct.

reasons for that change have been identified and corrected in 2020.

Prevision for Gratuity - Mahaweli Security Force	266,401,977	266,561,977	160,000	There is no such difference between the gratuity allocation of the Mahaweli Security Force financial statement and the consolidated financial statement.	Actions should be taken to check the difference and to correct.
Recurrent Expenditure - Mahaweli Security Force	488,250,509	471,290,659	16,959,850	There is no such difference between the recurrent expenditure of the Mahaweli Security Force Financial Statement and the Consolidated Financial Statement.	Actions should be taken to check the difference and to correct.
Capital Expenditure - Mahaweli Center	6,662,000	5,908,943	753,057	An error of Rs.753,510 under the Agriculture Account Code relating to the Mahaweli Integrated Project was pointed out under the Mahaweli Center.	Actions should be taken to check the difference and to correct.
Receivable Accounts Basic Work Control Activation and Maintenance Division	1,016,163,953	1,014,922,181	1,241,772	The unrecognized balance under the accounts receivable in the consolidated financial statement is Rs.1,240,772 and the Basic Work Control Activation and Maintenance Division has shown that amount separately in the financial statements under current assets.	Actions should be taken to check the difference and to correct.

Motor Vehicle depreciation - Huruluwewa	5,475,240	5,817,240	342,000	The accumulated depreciation of Rs.342,000 sent by mistake to the River Basin Management Division by the Huruluwewa Zone is shown as depreciation for the year. Steps have been taken to rectify it.	Actions should be taken to check the difference and to correct.
Farm Profit / Loss - Zone L.	2,197,000	1,789,000	408,000	The financial performance report of the L Zone had been shown Rs.2,197,121 accurately. But the difference in biological assets had not been adjusted in the preparation of the farm profit account. It has been corrected.	Actions should be taken to check the difference and to correct.

1.5.5. Suspenses Accounts

Item	Value	Period of contingent	Comments of the Management	Recommendation
	Rs.			
Mahaweli Livestock and Agro Enterprises Company	13,010,825	5 years	The balance of around Rs.33 million is currently Up to Rs.13 million has been corrected. This year, balances of around Rs.1 million have been rectified. Would like to inform that action will be taken to correct this balance in the future and will also show it separately in the Consolidated Financial Statements for the year 2020.	Action should be taken to settle unidentified accounts.

1.5.6 Consolidation

Audit Observations	Comments of the Management	Recommendations
<p>The Mahaweli Consultancy Services Bureau (Pvt) Ltd., which is included in the consolidated financial statements, had not submitted to the audit under in accordance with Section 150(a) of the Companies Act No. 07 of 2007. As a result, when consolidate the Authority's financial statements with the company financial statements. Consolidated financial statements were prepared on the basis of unaudited financial statements.</p>	<p>The company has not yet appointed a board of directors and the secretary of the line ministry has appointed a "competent authority" to run the company. However, the Company submitted its financial statements to the audit on 24 June 2020 under Section 150(a) of the Companies Act No. 07 of 2007, but refused to accept the financial statements with the approval of the competent authority. Further, we were informed in writing on 17 July 2020 that financial statements can only be audited was approved financial statements of the Board of Directors. Accordingly, the directors of our company are still vacant.</p>	<p>Audited financial statements of affiliated companies should be used in the preparation of consolidated financial statements.</p>

1.5.7 Lack of written evidence for the audit

Subject	Value	Unsubscribed audit evidence	Comments of the Management	Recommendations
	Rs.			
(a) Investment	20,477,000	Certificates of shares	Will look into this and make a presentation in the future.	Relevant balance confirmations should be submitted to the audit.
(b) Savings Accounts	2,632,908	Balance confirmations and Pass book	- do -	- do -
(c) Fixed Deposits	727,481	certificates of Deposits and Balance confirmation	- do -	- do -

1.6 Receivable and Payable Accounts

1.6.1 Receivable

Audit Observations	Comments of the Management	Recommendations
Even though it had been informed to recover the rent recoverable according to valuation reports for 13 buildings which are being used by external parties located in the Jawatte premises, a sum of Rs.70,224,000 had not been recovered until 31 December 2019. A sum of Rs.27,027,871 that had been paid as electricity and water bills for these buildings by the Authority had not been reimbursed from the respective parties.	Institutions have been notified From time to time for reimbursed. The board of Directors has submitted a memorandum to the Board of Directors for further action regarding this non-reimbursed. This value of Rs.3,472,883 are received in the year 2020.	Necessary action should be taken to recover the receivable amount.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(a) Paragraph 2.3.3 of the Department of Management Services Circular No. 01/2019 dated 24th March 2019	An officer can be released for a project on the governments requirement for a period of 5 year a full time basis or non-salary basis only at the request of the employee for a period of 05 years. But, 37 officers of the Authority had been working on the projects for more than five years. Due to this the permanent post of the Authority remained vacant for a	When the officers of the Authority were initially released to the Moragahakanda - Kalu gaga project, it was considered as a development program implemented under the Authority and attached to the officers. But, in releasing the officers to the above project the relevant officers/ employees were released in accordance with the provisions of the Authority Management Service Circular	Arrangements should be made in accordance with circular when releasing employees for project.

long time. Further, 33 officers were attached to the Moragahakanda Kalu Ganga project under the transfer with full time salary.

According to the nature of the completion of the development work of the Moragahakanda-Kalu Ganga Development Project, will take action to re-attach the excess staff to the Authority who are in excess of services Also; other project staff over 05 years will called back to the Authority service as at this time. Accordingly, the staff who were waiting for the inauguration of the new project on Integrated Water Resources and Water Resources Management will recalled to the Authority Service. Also, arrangements are being made to recall the staff who has been working in the Climate Impact Mitigation Project for over 5 years as at this time.

- (b) Paragraph 1.5.1 of the Financial Procedure of the Authority and Section 05 of the Internal Circular of the Director General No. 02/2012 of 15 March 2012. Although the advance payment should be settled within 07 days after the completion of the task, there was an unsettled supply advance amount to Rs.167,329,000 for more than one year relating to 10 zonnesh and two Divisions. Schedules for these balances will be obtained from the Zone / Division if there is an accounting error, it will be rectified accordingly, action will be taken to inform by the letter the relevant institutions and individuals about the receivable balances, if there is any accounting error, action will be taken to rectify it. Action should be taken to settle the advances in accordance with the Code of Financial Procedure of the Authority and in accordance with internal circulars.

(c) Asset Management Circular No.2/2017 dated 21 December 2017 of the Ministry of Finance and Mass Media.

- (i) Section 2
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| Although it is mandatory for all government owned vehicles used by all government agencies had been registered in the name of that institution, 56 governments owned vehicles used by the Authority had not been registered in the name of the Authority. | The duty free vehicles imported for the projects of foreign institutions operating in the Mahaweli Zones have been handed over to the Authority after the completion of those projects. Action will be taken over this vehicle belonging to the Ministry. Sri Lanka Customs should have to pay customs duty on the acquisition of these duty free vehicles to us. Acquiring these vehicles by paying taxes is not economically profitable. Will discuss with the Department of Customs the duties to be paid on the acquisition of this vehicles, remove the taxes and will be take action register them in the name of the Authority. | Action should be taken to register all the vehicles of the Authority in according to the circular. |
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- (ii) section 2.3 (a) and (b)
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| Although it was necessary to obtain the registration rights for the use of vehicles imported as tax free for vehicles and development projects donated to government institutions, the registration rights of 16 vehicles so imported without taxes had not been settled. | As a large amount of tax has to be paid for the acquisition of this vehicle to the Authority, will coordinate with the Department of Customs of Sri Lanka and Department of the Registration of Motor Vehicle and take future action. | Action should be taken to settle the registration rights of the vehicles in according to the the circular. |
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- (d) Section 2(b) of the Asset Management Circular No. 1/2018 of 19 March 2018 of the Ministry of Finance and Mass Media
- Although the all vehicles that are not in a state of running condition should be disposed of before 30 June 2018, but by the Authority had not done so.
- All vehicles not in a state of running condition owned by the Authority could not be disposed as at year 2018. A committee is being appointed and action to assess the disposal of non - running condition vehicles as at this time, belonging to all zones / divisions of the Authority, currently action is doing accordingly, will take action to dispose of these vehicles by the end of this year and adjust to final accounts.
- Necessary action should be taken as soon as possible in accordance with the circular.
- (e) Section 217(2)(vi) of the Government Land Ordinance No. 8 of 1947
- Although the market value of the land should be assessed and taxed when leasing land for commercial or industrial purposes, although 18 plots of land in the Thambuththegama Residential Business Management Area have been excluded from the lease base for quarrying, none of those lands have been surveyed and government assessment value tax had not been levied. The assesses value until the audited date of 27 February 2020.
- Active granite excavation project in the Mahaweli H Zone have been disposed of before years with the formal approval of the Authority on a under lease basis as well as without formal approval had been disposed of projects to carried out entrepreneurs. Therefore, the project entrepreneurs have been informed and submit tracing of the project lands at the personal expense of the relevant project entrepreneurs. After receiving the relevant tracing, the Department of Valuation has been directed to Anuradhapura to obtain the Government Assessment for the relevant project sites. Relevant information has
- Act in accordance with the Government Land Ordinance No. 8 of 1947, the relevant tax should be levied as prescribed.

not been received from the Department of Valuation so far and after receiving the relevant assessed value, action will be taken to calculate the taxes applicable to the projects and recover the arrears.

(f) Internal Circular of the Mahaweli Authority No: LUP/01/01/2019 dated 21 March 2019.

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| (i) | Section 1.6 of the schedules (I) | Although the land use charges were to be levied on the Geological Survey and Mines Bureau based on the volume of excavations paid by the royalty, by the Thambuththegama Residential Business Management Office had been done so. Land use charges had been levied only on the number of cubes requested by the licensee without certifying the amount of royalty paid to the Geological Survey and Mines Bureau. | By the Letter had been requested from the Geological Survey and Mines Bureau to provide information on the excavation volumes relevant to the active excavation projects in Zone H and action will be taken to calculate the tax arrears upon receipt of that information. | Measures should be taken to accurately identify the excavation quantities in accordance with the circular and to levy land use charges accordingly. |
| (ii) | Section 1.8 of schedule (I) | Appointment of monitoring committees at divisional level for continuous monitoring of excavation sites and observation reports including the amount of minerals extracted | Relevant Divisional Managers have been informed to submit to me at the divisional level observation reports regarding the project lands as per Section (i) - 1.8 of Internal Circular No. LUP / 01/01/2019. | Relevant reports should be submitted with proper supervision in accordance with the circular. |

per day field observations every 2 weeks referrals should have been made to the Director (Land Use Planning) but the Thambuththegama Residential Business Management Office had not been done so.

The Geological Survey and Mines Bureau and mines has the scientific and expertise related to these excavations. Information on excavation volumes related to active mining projects in Zone H has been requested from the Geological Survey and Mines Bureau. Upon receipt of the information, that the amount of mineral to be extracted will be forwarded to the Director (Land Use and Planning) had reported Residential Business Manager H Zone to me.

- (g) Asset Management Circular No 01/2017(i) dated 03 January 2020 of the Ministry of Finance Economy and Policy Development.
- Although the information on buildings used by government agencies should be updated by 31 December 2019 and submitted to the Comptroller General's Office before 20 January 2020, the H Zone, E Zone, Basic Administrative Operations and Maintenance Division and L Zone of the Mahaweli Authority of Sri Lanka building information had not been forwarded.
- Information regarding the Mahaweli E Zone and the Main Dams and Reservoir Operations Division of the Mahaweli Authority of Sri Lanka has already been forwarded to the Comptroller General's Office. Which the other two Zones Zone H and Zone L information will be obtained forwarded to the Comptroller General's Office expeditiously.
- Action should be taken to submit the relevant information as per the Circular.
- (h) Paragraph 2.1 of the Non-financial Assets Valuation Guide issued by the Comptroller
- Valuation of all government owned lands is essential and although priority should be given to the
- Future assessments will be made to adjustment the financial statements.
- Relevant lands should be assessed in accordance with the guidelines.

General's Office assessment of on 31 December 2018. government lands where government offices, holiday resorts, workplaces etc. action had not been taken to assess where the offices, holiday resorts and workplaces of the Sri Lanka Mahaweli Authority

(i) Internal Circular of the Mahaweli Authority No. DG /05/2017 dated 09 May 2017

(i) Sections A - 3 and C - 1 By the Thalawa Divisional Office had not grouped the official quarters and buildings and had not been maintained fixed asset registers. Housing or buildings which are not economically viable to maintain had not been properly identified and action should take in this regard has not been submitted to the Director General. Four abandoned official quarters had been shown. Separate files had been maintained for the official quarters and other buildings of the Divisional Office. Renovation work could not be carried out due to the inability to provide adequate provisions for the renovation of the official quarters for many years due to the existing allocation constraints. Therefore accept that it is in a dilapidated condition. Would also like to inform you that these quarters can be repaired and utilized if adequate funds are provided to the Authority by the Treasury. Action should be taken to maintain fixed assets registers by category as per the circular and use the quarters should be used effectively.

(ii) Section B-1 Although official quarters were to be provided to outsiders on a rental or lease basis only formally and on an agreement six official quarters at the Thalawa camp had The asset register states that 05 official quarters have been handed over to the Department of Postal. A complaint has been lodged with the Thalawa Police regarding the official quarters being Arrangements should be made to enter into agreements in accordance with the circular.

been provided to repaired to the outsiders free of Department of Postal charge without without proper approval agreement. At the time and the repairs have been of the audit, out of the suspended. The other one of the official official residence is quarters was being owned by the Authority repaired without the and although it was used permission of the by the Officer in charge Mahaweli Authority. (OIC) (Thalawa), inform, money had not been charged for this. Further, agreements are being prepared to formal agreement buildings that do not have formal agreements in the provision of housing to outsiders.

1.8 Management of money

Audit Observations	Comments of the Management	Recommendation
<p>Although to set up a revolving fund to provide loans for Mahaweli settlers, Rs.48 million in year 2020 and Rs.50 million in years 2009 had been deposited in the Regional Development Bank, action had not been taken to provide loans until the year 2020.</p>	<p>As this fund is a separate fund for settlers in Zones B and C, the Board of Directors approved to the implement a loan programme at a concessionary interest rate for small and medium scale entrepreneurs in those zones on 01 September 2020. Accordingly it is planned to use the fund to promote entrepreneurs in B and C Zones.</p>	<p>Money must be utilized efficiently and effectively.</p>

1.9 Non-compliance With Tax Regulations

Reference to rules, regulations, regulations, etc.	Non-compliance	Management's comments	Recommendation
(a) Section 10 (b) of the Value Added Tax (Amendment) Act No. 14 of 2002	The total value of goods and services supplied over a period of 12 months is Rs.12 million, If it exceeds, it is required to register for value added tax under the Act, but the Authority has deducted Rs.152 million from the revenue sources in the previous year and although the relevant revenue of Rs.1,920 million had been collected for the year under review, action had not been taken to register for Value Added Tax	Preliminary work is underway to register for Value Added Tax.	Action should be taken to register for Value Added Tax.
(b) Sections 6 and 7 of the Inland Revenue Act No. 24 of 2017	Although the Authority was required to pay income tax had not paid income tax and had not submitted to the audit the documents required to prove exemption from income tax. Further, amount of Rs.36,823,372 had been paid withholding tax on royalty income from small hydro power plants during the year under review, but tax deduction certificates had not been obtained. As a result, it was not possible to obtain tax relief in the future it was subject to income tax.	The Ceylon Electricity Board had been levied withholding tax on royalty income related to small scale hydro power plants.	Should be act in accordance with the Inland Revenue Act No. 24 of 2017.

02. Financial Review

2.1 Financial Results

Operating results for the year under review was a loss of Rs.293,175,000 and the corresponding loss was Rs.423,600,000 as compared to the preceding year. Accordingly, an improvement in financial results amounting to Rs.130,425,000 was observed. The increase of the royalty income and decrease of expenditure in rehabilitation and improvement had mainly attributed for this growth.

03. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
(a) The Board of Directors of the Sri Lanka Mahaweli Authority had been obtained approval on 18 June 2019 to auction the undeveloped highlands on the Authority's farms with the participation of the private sector on a long-term lease basis. Accordingly, the relevant residential business managers have been informed to auction of the undevelopment highlands owned by the farms so that they can be cultivated in the forthcoming Maha season. The total highlands of owned by Niraviya, Nochchiyagama and Kalankuttiya farms is 53.4 hectares had not been auctioned as at February 2020.	A 43-acre portion of the Nochchiyagama farm land has been handed over to ownership with the formal approval of the Board of Directors. The Senior Superintendent of Surveys has been directed to portion of land. Arrangements have been made to hand over a 25-acre land from the kalankuttiya farm land. The undeveloped part of the Niraviya farm land will be formally disposed of after the submission of a suitable investor.	Land should be disposed of through a competitive and transparent to calling quotation process with the approval of the Board of Directors.
(b) Although 43 stores belonging to the Authority have been used by the Paddy Marketing board since 2009,	The recipients of lands to settled in the zones by the Authority, in the stores built to store food gave to	Necessary action should be made to use the stores efficiently and

rent had not been charged for those stores as at 31 December 2019. Because this stores is a need require standard repairs to stores paddy, the chairman of the Paddy marketing Board had been requested to the Director General of the Mahawalli Authority to transferred the ownership of this stores to the Paddy Marketing Board. However, this land had not been able to transferred or leased as at 31 December 2019.

Authority under the World Food Program. After the completion of that program, the stores had been handed over to the Paddy Marketing Board for storage Paddy. Accordingly, the Paddy Marketing Board action had been taken to obtain information regarding the paddy stores requested by the Paddy Marketing Board from the relevant zones in the request made by them to formally hand over these stores used by them.

effectively and the relevant rent should be collected.

3.2 Operational Inefficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
<p>(a) Although the authority has entered to the agreement with GSMB Technical services (pvt) Ltd for a period of 6 months in April 2019, it was expected to earn Rs.61,876,800 by removing 103,128 cubes of sand form the Kantale suriyapura Thumodara sand Despites as at 31 December, 2019 it had been earned only Rs.12,969,960. The amount obtained in terms of section 4 of the agreement was of Rs.30,000,000 the bank guarantee had been expired on 31 December 2019, but the guarantee had not been extended until the date of audit 19 August 2020. Instead, the contract had been renewed for Rs.14,400,000 for 24,000 sand mining cubes next month.</p>	<p>The amount of sand cubes expected to be removed by 31 December 2019 as per the agreement was 103,128 cubes and expected income was Rs.61,876,800. But, due to protests against this project, the flood protection dam has been commenced to rehabilitation works before sand removal. Also, due to protests by regional sand traders, civil organizations and farmers' organizations, it has not been possible to start sand mining as at 8 July 2019. 39206.04 cubes of sand removed during the entire project period has been removed and a fees of Rs.23,523,624.00 has been charged. A bank guarantee of Rs.30,000 million has</p>	<p>Action should be taken the expected income available and the bank guarantees obtained period under the agreement should be extended.</p>

been deposited as security for the land use fee to be paid for future sand excavations prior to the commencement of sand deposit excavation in accordance with agreement No. 04. The bank guarantee was released on the confirmation of the Residential Business Manager that the fees had been paid correctly for the amount of sand cubes removed. There is no agreement on holding a guarantee for the rehabilitation of the land and rehabilitation of the land project is to be carried out at the end of the project subject to the approval of the Advisory Committee.

- (b) The revenue of the three Moragahakanda hydro power plants which had been generating electricity since May 2018 had not been included in the Authority's revenue estimates for the year 2019 and had been earned Rs.647 million during the year under review. Funds had not been raised for the maintenance costs of the power plant of electricity. Any provision to income had not been made. Although the out of which Rs.200 million had been credited to government revenue on the basis of reobtained to bills held by the Authority as at 31 December 2019, the rest of the money had been spent without approval.

Although electricity had been generated since May 2018, estimates for the year 2019 are being prepared in December 2018. At that time the relevant details had not been reported to us. Therefore, it was not possible to make that revenue estimate. As no policy decision has been taken regarding the allocation of a portion of this fund for the maintenance of power plants, steps are being taken to inform the relevant sections in the future and formulate a policy. As per the decision of the Board of Directors, the revenue of the Authority can be used for recurrent and capital expenditure and the relevant expenditure has been incurred accordingly.

All expected revenue should be included in the preparing to budget and it unreported revenue should be remitted to the Treasury.

- (c) Although it was planned to provide lands for a select list of 40 persons from the Thalawa camp premises, lands had been surveyed for 43 persons. Lands had been surveyed for five persons not named in the original selection list and lands had not been surveyed to 2 persons in the original selection list. The plots of land had not been handed over to 44 officers of the Mahaweli Authority at the Thalawa Camp Premises and the lands had not been duly disposed of the date of audit 07 July 2020. Although the out of 15 plots of land had been illegally alienated, the necessary steps had not been taken to remove the unauthorized possession. Although more than 12 years had passed since the land was selected, all but one of the lands had not been used for residential purposes and the lands had become wild.
- 44 officers serving in the Mahaweli Authority at the Thalawa Mahaweli Camp division 420/421 of the Thalawa Division have been handed over to tracking H/EX/33 and H/171 and tracking H/EX /45 in the year 2009. Lands have been handed over to 05 persons whose names were not mentioned in the original selection register based on the selection list held in the year 2003. According to the preliminary map of sheet No. 26 of 110/133 plot map, 51 plots have been allocated and the plots have been handed over to the 44 persons. Further inform that since these lands have been allocated under the Government Land Ordinance. It is not possible to issue free grants to them until the full valuation has been paid. According to the note, plots 1571, 1582, 1588, 1598, 1600, 1572, 1591, 1573, 1606, 1554, 1549, 1548, 1578 and 1545 have been illegally alienated from the plots of land and action will be taken to cancel the original plots of land in those plots. Let me know, the recipients of these lands have been informed in writing that they are working in other areas and that the recently. Have settled in other areas and they have not developed these lands and pay the arrears.
- Action should be taken to remove the unauthorized possession and the selection should be canceled if the land is not used for residential purposes.

- (d) Although the royalty charges had been paid 75,973.8 cubic feet of granite to the Geological Survey and Mines Bureau during the testing of eight quarry licenses in the Thambuththegama Residential Business Management Area by the Thambuththegama Residential Business Management Office of the Mahaweli Authority had charged only 8369.5 cubes of granite. It could have been earned accordingly, Rs.66,127,150 revenue had been lost
- Out of the lands excluded for quarrying projects in the Thambuththegama Residential Business Management Area, the amount of land use charges had been charged of 08 excavation permit related projects are 8369.5 cubic meters. The calculation of the relevant samples has been done since the year when the project activities were approved by the Mahaweli Authority of Sri Lanka. But circular LUP/01/01/2019 stipulates that the Mahaweli Authority of Sri Lanka should levy land use fees based on the volume of excavations paid to the Geological Survey and Mines Bureau and not in the circular used before. According to the internal circulars issued from time to time and the size of the cubes had been calculated based on the 4/CS/3/10 general circular. Accordingly, water gel Kg. 01, It is concluded that 2.5 cubes of granite will be extracted. Although requested the relevant information from the Geological Survey and Mines Bureau, I have not received that information so far. Upon receipt of the information, action will be taken to recover the arrears from the project owners in respect of the amount of the arrears cubes.
- A formal inspection should be carried out regarding the excavation permits and the amount of quarries removed should be calculated accurately and the relevant land uses charges should be levied.

3.3 Inactive or Underutilized Property, Plant and Equipment

Audit Observations	Comments of the Management	Recommendation
Which had been repaired at a cost of Rs.8,550,788, In the year 2017, A crane owned by the Kotmale Functional Engineering Office, remained idle from 2018 to May 2020 due to improper repairs,	Although the relevant hydraulic system was expected to be repaired in the year 2018, due to non-receipt of funds as to limitations in allocation of funds, that tasks could not be accomplished. Accordingly, the annual work plan for 2019 also failed to allocate funds for the repair of the hydraulic system of this machine. Requests were also made in the year 2020 work plan, but this work could not be carried out as the allocations made by the four interim accounts this year had been limited more than in previous years.	Should be properly repaired and used.

3.4 Delays in Projects or Capital Work

Audit Observations	Comments of the Management	Recommendation
The old dam model of the Kotmale Functional Engineer's Office had been removed while the construction of a new dam model and the renovation of the existing observation room at a cost of Rs.6,990,000 a contract had been awarded in the year 2017. The dam model which was planned to be constructed at a cost of Rs.2,060,000 had not been completed by May.	Will be directed to take legal action.	Further action Should be taken in according to the legal action.

3.5 Management of Procurement

Audit Observations	Comments of the Management	Recommendation
21 air conditioners which had not exceeded the warranty period purchased in the year 2015, had been repaired by purchased institute without using and taken them out of use and re-purchased 22 air conditioners from the same	Purchasing Air Conditioners repair to be made when an air conditioner malfunctions, cost date of purchase, warranty period of the machine, warranty period of the compressor, etc. all matters must be considered,	Repairs should be made by the relevant suppliers during the warranty period and necessary steps should be taken to

company for Rs. 3,367,971 in the year under review. Also, these purchases were not included in the annual procurement plan.

as appropriate, repaired or re-installed by an agency or by an outside agency. Some machine can be used in period of 15-20 years for without technical defects or problems. On this situation, the number of air conditioners purchased during the year of the procurement plan will not be recorded and the money allocated for general maintenance will be used for this purpose.

select suppliers of quality and economical products.

3.6 Shortcomings in Contract Administration

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
<p>(a) A contract agreement of Rs.4,861,105 had been entered into the year 2017 for the construction of the Pollebedda Official Quarters in the Rambaken Oya Region and Rs.1,243,051 had been paid as advance. The contract period had been extended on two occasions to 28 December 2018 but the work had not been completed on these days. Although the validity of the performance guarantee expired on 20 November 2018, its validity had not been extended. The contract had been suspended on 14 March 2019 and the late fee of Rs.486,110 had not been charged. The overpayment of Rs.1,402,376 to the contractor had not been recovered by 17 August 2020. The contractor had not been put on the blacklist.</p>	<p>The contract was awarded to the relevant institution on 23 December 2017. The contract period was 150 days and the work of this contract was started by the contracting company on 05 December 2017. Although the contracting company had requested as start-up advance of Rs.1,458,331 out of which Rs.1,243,051 An advance has been paid on 27 December 2017. Delays in the work of the above contract have been notified to the relevant contractor by a letter dated 29 March 2018. As the work on the contract is due to be completed on 06 May 2018, it has been notified to extend the relevant performance guarantee and the work start-up guarantee related to the contract. Accordingly, the Contractor has extended the validity period of the advance guarantee till 15 September 2018. Due to the inability to complete the work on this contract on the relevant date, although the letter dated 09 July 2018 requested that the contract period be extended to 10 October 2018 the contract</p>	<p>Should be made Identify the payments made to the contractor in excess of the amount of work done and take the necessary action to recover those amounts expeditiously and the contractor should document the blacklist.</p>

period was extended to 20 September 2018. The Progress Review Meeting held on 23 July 2018 this contract physical progress was 18% advised the Contractor to complete the work as soon as possible as . Informed to the Head Office by a letter dated 21 November 2018, that it could not be satisfied with the progress of this contract. According to that letter, the head office instructed by the contractor to resume work within two weeks. Furthermore, the letter dated 07 February 2019 has informed the head office that the contractor has not commenced work. Accordingly, the head office had been terminated the work of this contract. Further, the letter dated 12 September 2018 has informed the Construction Protection Fund to recover the performance guarantee and advance guarantee applicable to the contract.

- (b) A contract agreement of Rs.4,843,185 had been entered into in 2017 for the construction of a Maha Oya Official Quarters in the Rambaken Oya Region and as an advance of Rs.1,414,555 had been paid. The contract had been terminated on 14 March 2019 in accordance to non-compliance with the agreement. The performance guarantee and advance guarantee period had expired on 15 September 2018, but action had not been taken to extend their period. The amount to be charged
- This contract had been awarded to the relevant institution on 14 November 2017 at a cost of Rs.4,843,185. The contract period was 150 days and the work on the contract had been started on 06 December 2017. Although the letter dated 17 December 2017 had been requested an advance of Rs.1,417,556, out of which only Rs.1,414,556 has been paid. Due to the delay in the work related to the above contract, action had been take to inform the relevant contract institute by the letter dated 29 March 2018. Due to the inability to complete the contract, the contract period had been extended to 20 September 2018, on request to had been extended the contract period by 50 days. It has been informed at the progress review meeting on 23 July 2018 regarding this contract that the
- Should be made Identify the payments made to the contractor in excess of the amount of work done and take the necessary action to recover those amounts expeditiously and the contractor should document the blacklist.

from the contractor is Rs.1,242,997 had not been recovered by 17 August 2020 and action had not been taken to put the contractor on the blacklist.

physical progress is about 17%. Therefore, it was informed that the work of the contract should be completed as soon as possible. The letter dated 12 September 2018, has been informed the Construction Protection Fund to recover the performance guarantee. The Head Offices have been informed to the Contractor in a letter dated 11 December 2018 to commence the work on this Contract within two weeks. The contractor has been informed by letter dated 14 March 2019 that this contract has been canceled due to inability to commence work on this contract.

- (c) A contract agreement of Rs.13,837,634 had been entered into in 2017 for the construction of a 10-room Dometry in the Rambaken Oya Area. The performance guarantee and the advance guarantee expired on 28 February 2019, but action had not been taken to extend their period. Out of the work commence advance has been obtained for Rs.1,311,158 still receivable. According to Section 59.2 of Declaration No. ICTAD/SBD/01 of the Construction Industry Development Authority, the contractor's services had to be terminate the construction work which had been suspended for 28 days without the permission of the Engineer. But the Authority had not taken any action by 2020.

The contract period of this contract has been extended on 05 occasions and had been valid till 31 January 2019. The validity period of the advance guarantee and performance guarantee in respect of the above contract has also been extended till 28 December 2018. Bills have been paid for this contract in four stages and the value is Rs.8,179,315. In those payments, the start-up advance of Rs.2,788,842 had been settled and a further Rs.1,311,158 has to be recovered. Would also like to inform you that they have completed a portion of the work to cover the advance given during the phase inspection of these constructions.

The payments made to the contractor in excess of the amount of work done should be identified and action should be taken to recover those amounts expeditiously and steps should be taken to terminate the service of the contractor.

- (d) For the construction of Murawasihena Divisional Office in Walawa Zone the year 2018 Rs.14,757,550 had been entered to agreement and an advance of Rs.4,323,015 had been paid. The contract had been terminated on 22 January 2020 due to non-compliance with the agreement. But was again given 6 weeks at the request of the contractor. The work had not been completed by 17 August 2020 and an the contractor work start-up advance of Rs.3,150,256 had to be received.
- The contract was due to expire on 25 May 2019. As progress had not been observed in the activities of the project, a letter had been sent to the institution informing about it on 06 June 2019. On 20 September 2019, the Construction Protection Fund extended the Performance Bond until 31 December 2019. Three occasions considered for reasonable reason this contract had been extended to 30 November 2019. A final notice had been issued for the suspension of the project on 05 December 2019, accordingly it had been informed to plan complete the project expeditiously. At the progress review meeting hold on 19 February 2020, it was agreed to complete the work within six weeks as discussed with the Construction Safety Fund and the contractor. Further, on 14 May 2020 institute was informed to renew the performance guarantee and advance guarantee. A letter has been forwarded to the institute on 14 May 2020 to start the work of the project. The advance guarantee and performance Guarantee for relevant to this project has been extended to 31 December 2020 and the relevant documents had been obtained by the Construction Protection Fund as at this time.
- If the work is not completed within the extension of time, the agreement should be terminated and the relevant securities should be convert money and the necessary steps should be taken to identify the overpayments made to the contractor and recover the amount expeditiously.

3.7 Human Resources Management

----- Audit Observations -----	----- Comments of the Management -----	----- Recommendation -----
As on 31 December 2019, 16 out of the 35 senior management level posts of the Authority were vacant and 12 of them had been filled as the vacant posts on acting duty coverage, contract basis assignment and secondary basis. Although the Authority has from time to time called	As at 31 December 2019, 16 out of 35 senior management level posts in the Authority had been vacant although applications had been called to fill those vacancies, but due to inability to recruitment during the election period, 12 of those posts were filled with acting, coverage of duties assignment	Permanent officers should be recruited for senior management level.

for applications to fill senior management level vacancy, it had not been possible to fill the vacancies for a long period of time due to non-recruitment. There had been remained 148 vacancies at the middle management level and 349 vacancies at the operations management level.

basis, on contract basis, arrangements had been made to continue to fill the vacancies by appointing officer. Once again applications had been invited internally for 54 vacancies in the senior management level, middle management level and Operational management level of the Mahawali Authority of Sri Lanka. Kindly inform you that arrangements have been made to conduct interview a expeditiously for the officers who have fulfilled the basic qualifications in calling these application. Kindly inform you that the problematic situation will be resolved once the vacancies are filled.

3.8 Vehicle System Management

Audit Observations	Comments of the Management	Recommendation
<p>Eleven vehicles belonging to the Authority had been handed over to outside parties. Vehicles had not been disposed of after 2016 and it was recommended to dispose of 64 vehicles as debris at an estimated cost of Rs.1,577,100 as the vehicles to be disposed of were not disposed of in a timely manner.</p>	<p>Due to defects in these vehicles, which are more than 35 years old (chassis decay, soldering and abrasion) cannot be driven on the road and since it is parked. In the garage and, it has been decided to dispose of it as debris rather than as a vehicle. Also, as per section 1.3.3 of the Asset Management Circular No. 04/2018 dated 31 December 2018, a member of the Department of Motor Vehicles could not carry out disposal activities in a timely manner due to delay in delivery to each zones. Steps will be taken to prevent such situations in the future.</p>	<p>Vehicles given to outsiders should be returned to the Authority and disposed of at the appropriate time.</p>