

## **Head 198 – Ministry of Irrigation**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Ministry of Irrigation for the year ended 31 December 2021 comprising of the statement of financial position as at 31 December 2021, statement of financial performance and cash flow statement for the year 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 statement of the Ministry of Irrigation in terms of section 11(1) of the National Audit Act No. 19 of 2018 was issued to the Chief Accounting Officer on 15 June 2022. Annual Detailed Management Audit Report related to the Ministry, was issued to the Chief Accounting Officer on 18 July 2022 in terms of section 11(2) of the Audit Act. This report is presented to the parliament in terms of section 10 of the National Audit Act No. 19 of 2018, which should be read in conjunction with the article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion except for the matters described in the Para 1.6 of this report the accompanying financial statements give true and fair view of the financial position of the Ministry of Irrigation as at 31 of December 2021 and its financial performance and its cash flow year ended in accordance with Generally Accepted Accounting Principles.

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

---

My opinion is qualified based on the facts stated in paragraph 1.6 of the report.

My audit was conducted in accordance with the Sri Lanka Audit Standards (SLAuSs). My responsibility for financial statements is further elaborated in the section of auditor's responsibility. I believe that the audit evidences I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibility of the Chief Accounting Officer on Financial Statements**

---

The Chief Accounting Officer is responsible to preparation of financial statements that give a true and fair view in accordance with the Generally Accepted Accounting Principles and provisions in section 38 of the National Audit Act No 19 of 2018 and for such an internal control as management determine is necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud and 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 on all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

in terms of sub section 38(1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic review to monitor the effectiveness of such system and accordingly make any alteration as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibility on Audit of 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 and error, and to issue an Auditor General's report that includes my opinion. Reasonable assurance is 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. Misstatement can arise from fraud and error are considered material if individually or aggregate, it is materiality depend on the influence on economic decision made by the user base on these financial statements.

As a part of the 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 risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 omission, misrepresentation, or the override of internal control.
- Obtaining 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 Department's internal control.
- Evaluate the appropriateness and reasonableness of the structure and content of financial statements, including disclosures as well as the transactions and events which were based on.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief 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 accordance with the section 6(1) (d) of the National Audit Act No. 19 of 2018.

- a. Whether the financial statements are consistent with the preceding year.
- b. The recommendations made by my report with regard to the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

-----

### 1.6.1 Non-financial assets

-----

Audit Observation	Comments of Chief Accounting Officer	Recommendation
-----	-----	-----
(a) The machinery and equipment balance were overstated by Rs.1,544,530 while recording the opening balance of non-financial assets.	It is directly added to the opening balance and accordingly the machinery and equipment value of Rs. 1,544,530 has been added to the opening balance of 2021 as the date of the last year is applied to the CIGAS system as the relevant accounting year in the preparation of the report.	Action should be taken to enter correct information while preparing financial statements.
(b) The property developed at a cost of Rs.31,037,018,021 in the year 2021 was not accurately identified and accounted for as non-financial assets although financial assets should be identified and accounted for according to the instructions given by the Public Accounts Department regarding the accounting of fixed assets. Out of which Rs.19,370,038,036 had been released the provision to other 03 institutions including the Irrigation Department and the relevant projects had been implemented. It had not been issued instructions regarding the taking over and accounting of the said assets to those institutions.	Head of Budget 2105 - This Head of Budget is used to maximize the productivity of irrigated land units allocated to the Irrigation Management Division by Budget Estimates and the expenditure related to the work done at the field level related to empowering the farmers. This difference arises because these expenses are not in the form of expenses related to non-financial assets and are not accounted for as assets.	Action should be taken to examine comparatively to ensure that the correct information is included while preparing the financial statement.

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

<b>Audit Observation</b>	<b>Comments of Chief Accounting Officer</b>	<b>Recomendation</b>
(a) It had saved total of Rs. 83,609,978 or 63 percent from the net allocation totaling of Rs.132,147,800 which had allocated for 23 expenditure objects.	Executed only essential tasks to reduce costs and manage public expenditure and was not incurred the expenditure-on the expenditure objects as planned due to the covid-19 epidemic in the country.	Variances should be minimized as much as possible while preparing the budget.
(b) The total allocation of made to 3 capital expenditure objects was Rs.4,911,880,000 and which only Rs.3,567,724,627 had been spent. Accordingly, a saving of Rs.1,344,155,373 was observed.  The percentage of savings was 27 percent.	The project activities were not carried out as planned and the imprest were not received adequately for the payment activities from the treasury due to the covid 19 epidemic situation in the country and the crisis situation in the country.	Action should be taken to utilize the allocated provision to the maximum and effectively.
(c) A total of Rs. 760,500,000 in 3 occasions for restoration of the small and medium size tank project in agricultural areas under the authority numbers 136, 375 and 820 under supplementary allocation and Rs.651,380,000 under the supplementary allocation for the integrated water aid and water resource management project under authority number 905 and Rs.3,500,000,000 had also been given under the Supplementary Support Services and Emergency Liability Project on 31 December 2021 under authority No. 1090. But it	-do-	-do-

had been saved of Rs.392,485,503 Rs.347,351,813 and Rs.604,318,057 from those provisions respectively. The percentage of savings was 52, 53 and 17 percent respectively. It was also observed that the provisions have been saved because the necessary actions have not been planned to get the expected benefits from the implementation of the development projects.

**2.2** Entering into Commitments and Liabilities

-----

Audit Observation

Comments of the chief Recommendation  
accounting Officer

-----

-----

-----

As per Paragraph No. 02 (d) of State Accounts Circular No. 255/2017, the payments related to the financial year should be exempted in that financial year and any liabilities should not be carried forward with the intention of settling it in the next year and despite the instructions that the treasury will not take further action to settle the liabilities incurred contrary to the instructions, it had been reached to liabilities amounting of Rs.2,105,384,895 as at 31 December 2021.

It was carried forward as liabilities due to non-receipt of requested imprest amount during the year.

Action should be taken as per Paragraph No. 02 (d) of State Accounts Circular No. 255/2017.

**2.3 Advance Account Balances**  
-----

**Audit Observation**  
-----

**Comments of the Chief Accounting Officer**  
-----

**Recommendation**  
-----

- |   |  |  |
|---|--|--|
| <p>(a) It had not been taken action to identified and recovered the loan balance of Rs 434,066, which has not been identified for more than 5 years even by May 2022.</p>   | <p>Necessary actions are being taken to correct this balance in consultation with the Ministry of Irrigation and the Public Accounts Department.</p> | <p>Actions should be taken to identified and recovered the debt balances.</p>  |
| <p>(b) A total of 661,642 rupees of debt should have been collected from 04 officers who left the service and the receivable loan amount of Rs. 73,062 from one officer was old more than 05 years. The loan should have been recovered from their guarantors, but the action had not been taken by Ministry accordingly. Further it had not been taken actions in according to the provisions of the Establishment Code.</p> | <p>Answer was not submitted.</p>   | <p>Action should be taken according to the provisions of the Establishment Code and disciplinary action should be taken for failure to collect debt.</p> |

**2.4 Deposit Account**  
-----

**Audit Observation**  
-----

**Comments of the Chief Accounting Officer**  
-----

**Recommendation**  
-----

<p>The construction work of Velioya Residential Business Management and Meeting Hall had been stopped midway after reaching 85 percent of the physical progress which was the construction started in 2016. Action had not been taken to take into income even the 5 years has passed which the amount of Rs. 1,251,774 retained from the amount paid to the Contract Company.</p>	<p>In order to make the related payments while doing the rest of the work, by the all payments made to the contractor up to now, which is the sum of retained Rs. 1,251,774 was being recovered from the government, so this deposit had not been paid to the contractor</p>	<p>The Action should be taken under contract law in relating to the defaulting contractor and blacklisted. Action should be taken to fulfill the planned and desired objectives promptly.</p>
--	--	---

**2.5 Non-compliance with Laws, Rules and Regulations**

---

<b>Observations</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
<p><b>Reference to Laws, Rules and Regulations</b></p> <p>-----</p> <p>Establishment Code of the Democratic Socialist Republic of Sri Lanka</p> <p>-----</p> <p>Section 12 of Chapter VII of the Establishment Code and Section 115 of Procedural Rules of the Public Service Commission.</p>	<p>-----</p> <p>Although an accountant post in Sri Lanka Accountancy Service (111/11) class was approved for the position of accountant in the International Training Institute for Irrigation and Water Management in Kotmale, contrary to the provisions of the above section, an officer holding a first-class position above it was appointed to work and Rs.1,280,150 paid as allowances.</p>	<p>-----</p> <p>At the time when the concerned officer assumed the duties of the accountant position of this institution, he was a holder of class III accountant position. Later he was promoted to Class I. The service was obtained due to not receive the requested accountant.</p> <p>Action should be taken according to the relevant rule which appointment made in violation of the Establishment Code.</p>

## 2.6 Operating the bank accounts

### Audit Observation

### Comment of the Chief Accounting Officer

### Recommendation

Although the cash book balance should be remitted to the Treasury at the end of the year, a total of Rs.316,156,487 was held in 5 project bank accounts as at 31 December 2021 without remittance to the Treasury.

The remaining balances in these accounts are the advance money received from the foreign loan aid agencies for the related projects under foreign loan aid (Financing - 12) and are not settled to the Treasury at the end of the year.

The internal control system related to the settlement of accounts at the end of the year should be improved in accordance with the instructions given by the Ministry of Finance.

## 3. Operational review

### 3.1 Delays in project execution

#### Audit Observations

#### Comment of the Chief Accounting Officer

#### Recommendation

(a) It had not been completed the 4 development projects of Talpitigala Reservoir, Productivity Promotion and Irrigation System Efficiency Management Project, Ging Nilwala Diversion Project and Uma Oya Diversion Project which are operated under the ministry with an estimated value of Rs.153,915.7 million even though more than twice the planned time had passed. It was not possible to get the economic benefits that were identified under the basic objectives when submitting the project for approval as planned.

#### (i) Talpitigala Reservoir Project

It was not possible to start work on the project due to the political changes in 2015 and public opposition to the Umaoya project. The Foreign Loan Agreement was signed with China's EXIM Bank to resume operations In December 2017. Although the Project Management Unit (PMU) was established in June 2018, the contracting company stopped the studies and withdrew from the field due to the 2019 Easter attack.

The impact on expected benefits due to project delay should be assessed and reported to the Cabinet. It should be considered the effect of the loss of expected benefits due to delay in granting extension of service to the staff.



Without analyzing and taking action about the responsible parties, the cost incurred of Rs.90,294.5 million for 4 projects within 14 years had not been contributed to the national economy so far.

The PMU was initiated re-surveys, studies as well as infrastructure development based on the financial allocation of the Sri Lanka Government In 2020. Simultaneously, land acquisition and environmental development activities were also started and 95 percent of land acquisition, 100 percent of measuring and surveying, and 4 percent of infrastructure development over the master estimate have been completed and approximate 9 percent of quantitative works of the construction estimate have been completed in 2020 and 2021. Partially completed. Also, arrangements are being made for the early commencement of the on works.

(ii) Productivity Promotion and Irrigation System Efficiency Management Project.

Expected targets could not be reached due to not receiving money allocation and imprest amounts. Therefore, the overall physical progress is limited to 12.16 percent.

**(b) Ging Nilwala Diversion Project**

-----

(i) An EPC contract agreement of USD 690,000,000 was signed with the Ministry of Irrigation and Water Resources Management and CAMEC IUD of China for the implementation of the Ging Nilwala Diversion Project on 05 November 2014. It had been paid of

The instructions have been given to temporarily suspend uninvited direct projects according to the instructions given by the Prime Minister's Secretary dated 28.05.2015 and accordingly, the contractor has been notified to cash the guarantee of the Ging Nilwala diversion project. However,

Disciplinary action should be taken against the officers responsible for non-implementation of the terms of the agreement.

4.35% or USD 29,989,000 (Rs.4,011,054,982) of the contract value as pre-work advance for that. According to the fifth clause of the EPC agreement related to this project, all the matters under that clause must be completed in order for the agreement to come into effect and in the event that the project is not implemented within one year from the date of signing the agreement, the agreement must be canceled without the agreement of both parties and accordingly, the agreement had become cancelled on 5 November 2015.

- (ii) The work of the project was immediately stopped without obtaining the opinion of the Attorney General as per the decision of the Cabinet Sub-Committee on Economic Affairs regarding the possibility of converting the advance guarantee into cash and as per the instructions given by the Prime Minister's Secretary and without the approval of the Council of Ministers, the relevant advance amount is recognized as the cost for the activities of basic data collection, surveying, geographic observation activities, updating the feasibility study report and preparation of preliminary plans and the Secretary to the Ministry of Irrigation had prepared an MoU On 20 January 2017 for completing them within 8 months. Even though the 5 years
- The Ging Nilwala Diversion Project is a project that directly connects 05 main river basins and is a water resource development project second only to the Mahaweli Master Plan that was implemented earlier. The feasibility study of a project like this is very complex and was made even more complicated by the social, political and environmental factors involved. Although Phase I of the project is to be completed within 09 months according to the contractual conditions, the completion of the work has been delayed due to factors beyond the control of the aforementioned contractor and the project management unit.
- Formal action should be taken against the responsible officers who acted without consulting the Attorney General, according to the decision of the Cabinet sub-committee.

has passed the preparation of the basic plans of the project has not been completed so far but the entire amount related to the work parts identified under it has been paid simultaneously. According to the physical performance report, 26% of the work still needed to be completed.

- (iii) It has been mentioned that the concurrence and support of the Forest Conservation Department should be obtained according to the decision of the Cabinet but the project is being conducted without obtained it even the 4 years have passed. It had been incurred Rs. 57 million for salaries, allowances and other expenses for the staff recruited for the project in a period of 5 years. In the functions of the project was delayed in the 8 years continuous it had become an uneconomical and additional cost burden.
- It was tried to get the permission of the Forest Conservation Department on many occasions and presented matters in this regard through Cabinet Memorandum, but in each occasion, we had advised to discuss with the Forest Conservation Department officials and take appropriate decisions.
- Although there are 15 approved staff in the project, the entire staff has not been recruited at any time. Further, the project work has been carried out through a minimum staff in all possible occasion, thus the salaries payment has been restricted to Rs.27 million for the staff from 2017 up to now.
- Taking formal actions related to the responsible parties regarding the failure to get the approval of the relevant line institutions by carrying out environmental evaluations and feasibility studies before releasing the advance for the start of the project.
- (iv) The Sub-Committee on Economic Management recommends that this project be carried out only along the Nilwala River by the Prime Minister's Secretary's letter No. PMO/01/ASP/2016/01(VoIII) dated 23.06.2016 and accordingly, a Cabinet Memorandum is to be submitted. But the agreement was reached on 20.07.2017 without submitting the said Cabinet Memorandum. It had
- The main objective of the Nilwala diversion project is to divert the excess water in the twin river basins of Ging and Nilwala to the down south dry zone where more water can be delivered from the Ging river basin. That is, out of the 300 million cubic meters expected to be diverted annually, 200 million cubic meters of water is obtained from the Ging river basin, while the amount of water obtained from the Nilwala basin is
- The sub-committee on economic management Should be find out and take formal action regarding the parties who have ignored the recommendations made by the sub-committee to carry out this project only along the Nilwala river and submit a Cabinet Memorandum.

been assigned to study the 2 parts of Ging and Nilwala. According to the recommendations of the economic management sub-committee, the contract was reached regardless of the recommendation made by the economic management sub-committee to carry out the project only along the Nilwala River, and the contract was reached to prepare plans to implement the project for both the Ging River and the Nilwala river, which have been declared as a world heritage site by UNESCO. It was not possible to obtain approvals from the Department of Forest and other institutions related to this project and situations such as public protests had been created. That was also disclosed in the Cabinet Memorandum.

Accordingly, it was observed that the studies and plans carried out under the MoU informally reached in 2017 are useless.

(c) **Umaoya Multipurpose Development Project**

-----

The revised total cost estimate for the Umaoya Multipurpose Development Project was expected to fund 529.06 million US dollars or rupees 74,325.75 million for capital works and 15,474.25 million rupees for other costs and development of the underpass area. By the end of 2020, domestic funds of rupees 72,153.17 million and foreign funds of 6,522.85 million rupees 78,676.02 million rupees had been spent for the capital work for the project. Although this project was started in 2008 and was expected to be completed in 07 years on 15 November 2015, the time was extended to 25 December 2021. The following are observed.

relatively low. Therefore, diverting only the water of the Nilwala river basin is not sufficient at all and as a significant cost has to be incurred for that and implementing the project only along the Nilwala river will be a very low technical and economic feasibility project. The relevant company has been entrusted with the studies related to both the Ging and Nilwala river basins based on that reason. Although the implementation of the project is delayed due to the existing economic, social and political conditions, the expenses incurred for the study of such a project will be more useful in the future.

**Audit Observation**

**Comments of the Chief Finance Officer**

**Recommendation**

-----

(i) The project was financed by the Export Development Bank of Iran and the contractor was selected as per the decision of the Cabinet without inviting competitive bids and an agreement was reached on 27 November 2007. The foreign loan granted by the Export Development Bank of Iran was suspended due to the economic sanctions imposed on Iran in 2013. As a result, the cost of this project was financed from Sri Lankan government funds. According to those circumstances, in the decision to proceed with the project with local funds, there was no assessment of the competitive advantages that the Government of Sri Lanka could have obtained by inviting international competitive prices.

-----

The Export Development Bank of Iran (EDBI) had agreed to provide foreign loans for the project, but in 2013, the Iranian government-imposed sanctions, which halted banking transactions between Iran and Sri Lanka. At the same time, the financing facilities of the Export Development Bank of Iran were also stopped. At that time, in addition to the advance amount of USD 77,107,880 paid by the Government of Sri Lanka to the contractor, USD50,619.304 had been paid through the Iran Export Development Bank for the work done by the contractor. All other constructions had started except for the construction of the Puhulpola reservoir. In addition, the two tunnel digging machines and other machines and vehicles required for construction were also imported. The contractor was informed and the project was carried out on the financial allocation of the Government of Sri Lanka.

In the event of not receiving the financial facilities by EDBI, the project will be discharge by the contractor and the employer will be further delayed in receiving the benefits by going back to the international competitive bidding process and such a decision will have to incur huge additional costs. Moreover, the employer will have to face many practical problems by implementing such a decision.

-----

Action should be taken to assess the competitive advantages that the Sri Lankan Government could be gained by inviting international competitive prices and report to the Cabinet.

- (ii) The expected benefit due to the delay of the project, in addition to the power generation system, 4,500 hectares of new land and 1,500 hectares of currently cultivated land located in Wellawaya and Tanamalvila Divisional Secretariat Divisions of Monaragala District and It was not possible to fulfill the project objectives of supplying water to 30 million cubic meters annually for drinking and industries in the project area and providing drinking water needs in Bandarawela and Atampitiya areas of Badulla district by the reservoirs being constructed in Diabara and Puhulpola.
- The construction of Alikotaara Reservoir to the rehabilitation of 100 small tanks, the irrigation department is continuing to rehabilitate the reservoirs, canals and tanks that are being constructed for water distribution within 6 components Under the development of the lower valley. It is planned to complete all the works before the end of December 2022 and release water from 2 reservoirs, Dyaraba and Puhulpola, to the main irrigation reservoir. Also, the Atampitiya water scheme will supply water from the Puhulpola Reservoir to the areas of Vavalapitiya, Amunodowa, Kurukudegama and Warakadanda from the year 2019. The Bandarawela Diyathalawa and Haputala Integrated Water Scheme is under construction and the Diabara Reservoir is used as a water source to obtain the required water for this purpose and the structure construction work is in the final stage. The National Water Supply and Water Transport Board is taking action to complete all the construction works before filling the reservoir (December 31).
- The impact on expected benefits due to project delay should be assessed and reported to the Cabinet.

- |       |  |   |  |
|-------|--|---|--|
| (iii) | The project management unit had not been informed the relevant ministries while making recommendations about the effect of the obligation to make payments to the contractor for the approved time extension by refunding the late fees charged as per the provisions of the EPC contract agreement.                             | -do-  | -do-   |
| (iv)  | The government had paid Rs.1,931,346,396 for the compensation which had to be paid by the contractor due to the water leakage in the main tunnel of the Umaoya Multipurpose Development Project as at 31 August, 2021.   | It is recommended to recover the remaining amount of Rs. 584,813,829.83 from the amount paid as compensation up to April 2019 from Farab Company in 06 equal installments from the bills paid to Farab Company. Accordingly, the first installment of 96,196,400 rupees has been charged from the 95th bill presented by Farab Company. | Action should be taken to recover the amount paid for compensation from the contractor along with the related interest amount.   |
| (v)   | The project period had been extended from 15 November 2015 to 25 December 2021 and had not been charged the delay fee of USD 26.453 million which could have been levied at the rate of 0.01% per day up to a maximum of 5% of the contract value in accordance with the provisions of Clause 8.7 of the EPC Contract Agreement. | As per the audit report, USD 6,631,364 was charged as late fee. The collection of late charges has started from the 33rd bill of Farab Company after informing Farab Company regarding the collection of late charges.  | Action should be taken to charge the late fees as per the terms of the agreement and, the relevant parties should be informed regarding the repayment of the late fees charged and the necessary action should be taken to recover them. |
| (vi)  | It had been refunded of US 5,305,091 Dollars from which was charged of US 6,631,364 Dollars as late fees from the contractor as per Cabinet decisions.   | Since then, the President had issued an order to temporarily stop collecting late fees until further decision. It has stopped collecting late charges after charging late charges from the 40th bill of the Farab company. The total amount collected as late   | -do-   |

fees was US\$ 6,631,364 at that time.

The Cabinet has approved payment of 80% of the late fees collected, according to the committee report which was appointed to look into the possibility of paying back the late fees collected to Farab Company.

Whenever the project made recommendations to the Ministry to extend the project period, it was recommended to commence recovery of late fees again and to recover the late fees paid to Farab Company.

-do-

- (vii) The compensation amount of Rs.889,789,252 had not been recovered from the contractor which is paid by the Government of Sri Lanka and US\$ 8,155,981 had been recovered from the insurance company related to the contract as compensations. It has been recommended to recover the remaining amount of 584,813,829 rupees from the amount paid as compensation up to April 2019 from Farab Company in 06 equal installments from the bills paid to Farab Company. Accordingly, the first installment of 96,196,400 rupees has been charged from the 95th bill presented by Farab Company. Action should be taken without delay to collect the amount paid by the Government of Sri Lanka as compensation
- (viii) The contractor had requested an additional fee of US\$ 181,337,171 for late payment of additional costs and bills for the extended period of time. The project management unit had not formally rejected the request and informed the policy making departments about it as per the EPC contract agreement. the expected benefits from the project had not been realized By May 2022. The project management unit has formally rejected the request and the project management unit studied them and informed in writing that could not pay late fees for the other matters Farab Company requested except for late fee claims due to the late payment of bills by the employer when Each time Farab Company sent late fee claims. The request should be formally rejected and the Cabinet should be informed about it according to the EPC contract agreement. The concurrence of the contractor should be obtained that no other claims shall be made otherwise the effect of extending the period before the payment of the relevant delay amount will not be made.



Accordingly, a Negotiating Convention Committee (CANC) was appointed as per the approval of the Cabinet to study and make recommendations on the claim fees of US\$ 181,337,171 submitted with Farab as late fee claims and a cabinet paper has been submitted to pay only the amount of US\$ 38,612,000 as claim fee and the cabinet has approved it, taking into consideration the recommendations of that committee.

(d) **Establishment of Groundwater Monitoring Information Network**

-----

An agreement was reached on 3 October 2017 by the Secretary of the Ministry of Water Resources to implement the project as a pilot project in selected districts such as Anuradhapura and Polonnaruwa where kidney disease is widespread, as an Engineering, Procurement and Construction (EPC) contract with a foreign company at a cost of 20,629,921.18 Euros or 3,628.39 million rupees to implement. The following observations were made in this regard.

<b>Audit Observation</b>	<b>Comments of the Chief Finance Officer</b>	<b>Recommendations</b>
-----	-----	-----
<p>(i) Although 1,473,462 euros have been allocated for the construction of a data center building under this project the 04 years have passed, the construction work has not started even by August 2022. The basic objectives and expected benefits of the project could not be achieved by not constructing the data center building in parallel with the operational activities of the project since</p>	<p>This building is also used to establish the main office of the Water Resources Board in addition to the data center building therefore it was planned 24,000- sqft and 439,539 Euros were allocated under Provisional sum due to the need for additional provision as it was decided to complete the construction work under the first phase of which at 18,000 Square feet.</p>	<p>Necessary activities should be carried out for the construction of the data center and action should be taken against the responsible officials for not conducting the activities as planned.</p>

the extension of 18 months given for the project is scheduled to end on 30 September 2022.

All the plans have been submitted to the Urban Development Authority but even the freehold agreement has not been given till now. However, since a data center has already been established at the Ratmalana project office, it is kindly informed that there has been no adverse impact on the objectives of the project.

- (ii) when the project director made recommendations to extend the time of the project, which was planned to be completed within 03 years according to the agreement, it was stated that this is an EPC/Turnkey contract and the contractor will not be allowed any additional cost related to the extension of contract period. But it was not stated that such additional cost will not be charged according to the letter submitted by the contractor dated 11 March 2021 to extend contract period. It is stated that the duty of the Project Director to obtain such agreement according to Section 3.1.1 of the Agreement (PCC 3.1.1). Accordingly, if the contractor submits additional bills for the extended period as per the agreement in the future and refers to the arbitration board, there was a risk of disadvantage to the Government of Sri Lanka... Accordingly, it was observed that the project management activities have not been conducted in accordance with the protection of the rights government.

According to the terms of the agreement arrangements have been taken to extend the project period on 28.03.2021 and if any additional bill is submitted for extending the period, it should be done within a period of 28 days from that date. It has not been made such submission so far.

Also, there is no need to submit additional bills as the project has now reached its final stage.

The conditions for that should be included in order to extend the time and the necessary arrangements should be made for the agreement and to avoid the future disadvantages that may arise from it.

### 3.2 Projects that have not progress even though funds have been released

-----

The project to promote productivity and improve the efficiency of the irrigation system was planned to implement activities worth Rs. 18,500 million from the year 2017 to the year 2021. It had been allocated Rs. 2,528 million from 2017 to 2021 and Rs. 1,595 million had been spent. The following observations were made in this regard.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
(a) Although instructions had been given to examine the possibility of obtaining funds from development stakeholders for the project, the Department of Foreign Resources had not done proper coordination in this regard. The project was implemented with local funds.	The Department of External Resources has held several discussions on the possibility of obtaining funds from development stakeholders under the leadership of the Ministry of Finance and it has been suggested that local funds be appropriate for this purpose as the Productivity Promotion and Irrigation System Efficiency Improvement Project is a rehabilitation and community-based program.	It should be examined the progress of implementation of the instructions.
(b) Although the work on the project was planned to be completed in the period of 2017 to 2021, the physical progress was 12 percent. Its financial progress was 8.6 percent.	The planning activities of the projects, preparation of estimates is part of the physical progress and all of them are not evident from the financial progress, so the value of the physical progress is more than the financial progress.	Necessary activities should be taken to complete the work as planned.

### 3.3 Annual Performance Report

-----

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) The development notes under 1.4 of the performance reports were not approved by the Department of Management Services.	Answer is not submitted.	The guidelines issued by the State Finance Department should be followed as per paragraph 10.2 of State Finance Circular No. 2/2020 dated August 28, 2020.
(b) The Mahaweli Authority was not disclosed as an institution belonging to the Ministry under the para 1.6.	Answer is not submitted.	- do -
(c) The Ministry had been taken over Mahaweli Consultancy Service Bureau (Private)Limited Company from 30 December 2020 which was registered as a limited company under Mahaweli Authority. It had not been revealed related information by the performance report.	Answer is not submitted	- do -

### 3.4 Management weaknesses

-----

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) , The television set and the refrigerator, which were identified as deficiencies, were found to be in the official residence given to the private secretary of the Prime Minister and the tab computer was found to be in the custody of the former minister's private	It has been informed on 28.04.2022 to the Uva Provincial Governor's Secretariat, where the officer is currently working, to charge the salary of the officer responsible for the shortage of	Action should be taken to settle the goods that were identified as deficiencies in the board survey.

secretary in the 2019 board of survey, but they were not settled in the year under review.

these goods. The television set and the refrigerator are currently in the custody of the Ministry of Public Administration and arrangements are being taken to sort it out. It was informed that the action will be taken to hand over the tab computer. It will take an action to charge the value if the handing over is delayed further.

- (b) International Training Institute for Irrigation and Water Resources Management at Kothmale

-----  
According to the Cabinet Memorandum presented by the Minister of Irrigation and Water Resources Management on 4 July 2017, to open and maintain foreign currency accounts to facilitate the conduct of international training courses, to hold foreign training courses based on the benefits and proposals and the approval of the Cabinet was given, but it had not been done by 2022.

Arrangements will be taken to conduct foreign training courses based on the benefits and suggestions mentioned in the Cabinet Memorandum.

Action should be taken according to the approval of the Cabinet of Ministers.

- (c) The recruited and completed training from 2012 to 2020 was 172 at the Kothmale Irrigation Training Institute which was started in 2012, and the number of recruited in 2020 and 2021 and currently undergoing training was 61. Accordingly, in addition to the resources provided to the institution, the total annual expenditure of the institution is Rs. 36.5 million. The average number of students trained and undergoing training in 9 years was 20 students. Accordingly, the training cost had been exceeded rupees one million for one student.

In order to recruit and train The operational engineering assistants and activities of the technical assistants at an institution should be optimal level so as to achieve reviewed and the desired objective through arrangements should be taken to provide the establishment of the be taken to provide institution, I will prepare the maximum economic criteria regarding the number benefits from the of officers to be trained at a allocated resources. time as indicated by the audit and give my approval before starting a course.

- (d) It had been organized 218 short-term training programs for the employees of local institutions from the year 2017 to 2022, and there were irregularities related to the charging and spending of the training course fees.
- According to the Cabinet Special attention Memorandum, the relevant should be paid to the criteria should be reviewed to review of procedures determine the fees charged for and efforts should be each course and the course made to introduce a fees should be charged new internal control according to the Cabinet system under Section Memorandum. It will 38 of the National determine the criteria for Audit Act No. 19 of incurring the costs of each 2018. course and prepare the cost estimates.

#### 04. Human resource management

-----

##### Audit Observation

-----

##### Comments of the Chief Accounting Officer

-----

##### Recommendation

-----

The approved staff of the Ministry was 179 and the actual staff was 125. Accordingly, there were 54 vacancies in 20 senior level posts, 01 tertiary level posts, 22 secondary level posts and 11 primary level posts in the year under review.

Answer is not submitted.

Action should be taken to reviewed the requirements and necessary staff vacancies should be filled.