

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

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

Head 198 -The audit of the financial statements of the Ministry of Irrigation for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. My comments and observations on these financial statements presented to the Ministry of Irrigation on 9<sup>th</sup> September 2024 in terms of Section 11(1) of the National Audit Act, No.19 of 2018 appear in this report. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 14<sup>th</sup> October 2024 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018 will be tabled in Parliament in due course

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Irrigation as at 31 December 2023 , and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

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

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

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

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

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's / Department's / District Secretariat's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

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

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

<b>Reference paragraphs of the reporting to the previous year</b>	<b>to Recommendation not implemented</b>	<b>Paragraph reference in this report</b>
3.11 Management weaknesses	The orders should be implemented which given by the Committee on Public Accounts and report to the Committee on Public Accounts along with an assessment.	3.6 (b) Management Weaknesses

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### 1.6.1.1 Receipts of Revenue

<b>Audit Observation</b>	<b>Comments of the Chief accounting Officer</b>	<b>Recommendation</b>
Although Rs.1,335,900,000 should be recorded as the revised revenue estimate in the statement explaining the variance between the preliminary income estimate and the revised income estimate in Form ACA-1(ii), but the preliminary income estimate of Rs.1,275,355,000 had been recorded as the revised income estimate. Because of this, the format had not included "difference as a percentage of the preliminary income estimate" and "reasons for the difference" and the revised income estimate had been over stated by Rs. 60,545,000.	The amount mentioned in the preliminary estimate obtained from Sri Lanka Mahaweli Authority is given here and the amount of Rs. 1,275,355,000 has been stated due to there was not available of formal information about a revised estimate and it has not been stated about the difference and reason for that as there was not an amendment.	The accurate data should be entered in to the income statement.

### 1.6.1.2 Lack of Audit Evidence

<b>Audit Observation</b>	<b>Comments of the Chief accounting Officer</b>	<b>Recommendation</b>
The amount of Rs. 25,897,281,327 or 77 percent out of Rs. 33,582,127,928 which was spent under the expenditure object number 198-2-3-2506 in the year 2023, had been spent by the accounting officers under other 07 numbers of expenditure heads and had reported through monthly account summaries. Even though the related expenses have been made by other accounting officers in accordance with the provisions of F.R. 146(a) and (b) but the information related to that certification was not submitted to the audit.	The Ministry has the necessary documents to prove the expenditure incurred by several other expenditure heads in relation to our expenditure heads and the expenses of other headings were inquired and confirmed through the phone. A formal system has been developed from this year to verify the expenses incurred by other accounting officers as indicated by the audit query.	Action should be taken to verify the expenses incurred by other accounting officers.

## 2. Financial Review

### 2.1 Certifications to be made by the Chief Accounting Officer

<b>Audit Observation</b>	<b>Comments of the Chief accounting Officer</b>	<b>Recommendation</b>
The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is developed and maintained for the financial control of the Ministry and the effectiveness of that system should be reviewed from time to time and necessary changes should be made accordingly to make the system effective and those reviews should have been done in writing and a copy should have been submitted to the Auditor General, but statements that such reviews were done had not been submitted to the audit.	The certification could not be conducted for the year 2023 due to an omission and actions have been taken to correct it from next year.	Action should be taken in accordance to the provisions of Section 38 of the National Audit Act No. 19 of 2018.

## 2.2 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Observation Value Rs.		Comments of the Chief Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
(i) F.R. 447	33,582,127,928	It had not been entered the Information which required verifying the correctness of the expenses incurred in accordance with the Form 138.	The provision of expenditure object of 2506 (Infrastructure Development) is being allocated for projects implemented by the Ministry and It is not possible to record the details of payments to be entered in the general expenditure ledger under the expenditure subject 2506 of the expenditure ledger of the Ministry. Furthermore, they submit certified expenditure reports to the Ministry at the end of every month since these projects do not have facilities to account through the CIGAS system.	The facilitated should be arranged to account for the cost of the projects through the CIGAS system.
(ii) F.R. 571 (3)	2,209,455	The funds allocated for the projects by the Divisional Secretariats had been retained in the deposit	The actions will be taken to call an expenditure report from the Welimada Divisional Secretariat and from the Ella Divisional Secretariat	Unutilized funds should not be retained in deposit accounts without approval.

		accounts without being utilized.	regarding the amount of Rs.1,812,930 and Rs. 396,525 which sent to Welimada and Ella Divisional Secretariat respectively.		
(b)	Paragraph 03 (e) of Public Finance Circular No. 05/2019 dated 27 June 2019	472,184	Action had not been taken to recover the loan receivable at the amount of Rs. 472,184 from 03 retired officers.	It has been agreed to pay the loan amount of Rs. 73,062 on a monthly basis which is to be collected from Mr. T. A. D. Dayananda, who left the service. He has commenced paying it on 23.07.2024 with an amount of Rs.5000.	Actions should be taken to recover the debts receivable as per the provisions of the circular.
(c)	Paragraph 1.1.7 of National Budget Circular No. 118 dated 11 October 2004	434,066	Actions have not been taken to identify and recovered the debtor balances that have not been identified for more than 5 years even as at the date of this report.	It was not able to identify the loan balance of Rs. 434,066 so far which existed before the year 2017,	The loan balance should be recovered as per the provisions of the circular.

### 2.3 Irregular Transactions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The 180 vehicles and 182 machinery had imported under duty free permit to the Moragahakanda Kalugagan Agricultural Development Project in the years 2013 and 2014 and the validity period of those permit were ranged from 1 to 2 years and although the project was supposed to end on 22 July 2016, the project period was extended to 26 April 2018, but correspondingly, the vehicles were allowed to be misused without extending the period of the relevant permits. The Sri Lanka Customs had been	It was an omission of the project office that it has not been applied for the extension of the period of vehicle usage with the extension of project duration. There was not possibility of finding information as there were not of those officers at present. The article 14:1 (b) of the Agreement provides	It should be confirmed the extension of vehicle license period and the legality of their transfer.

informed to hand over the 41 vehicles due to violation the conditions of import permits. It had been informed to the Chief Assistant Preventive Officer of Customs that 16 vehicles are being used by the contract company and the remaining 30 vehicles are being used by the Project Management Unit. Similarly, although 46 vehicles are mentioned, it could not be identified the additional 5 vehicles due to the fact that the relevant schedules were not submitted. Although it has been stated that the documents for taking over the ownership of the vehicles have been submitted by the contract company according to the letter of the Assistant Director (Assignment) of the Motor Transport Department, the file was not submitted for audit which should be remained by the Ministry. The Additional Secretary of the Ministry of Irrigation had informed the Department of Public Finance that there was no objection from the Ministry of Irrigation to hand over 134 vehicles and 182 items of goods imported for this project as requested by the contractor. Even though the chargeable fine of Rs.476 million was charged under the provisions of the Customs Ordinance by reducing up to Rs. 105 million fine at 15 October 2020 after the inspection of the 16 vehicles assigned to the contractor but it was not confirmed to the audit that the vehicles and goods were charged of custom duty and transferred to the contractor

that the imported goods shall be used in this country on payment of applicable duties if not re-exported by the contractor. The project director has explained that the contractor can take over the goods which are not re-exported after paying taxes according to the agreement.

### 3. Operational Review

#### 3.1 Delays in the Execution of Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The 2 projects of the Productivity Promotion and Irrigation System Efficiency Management Project (PEISEIP) and the Talpitigala Reservoir Project with an estimated value of Rs.49,994 million and which	The work started in 2017 and continued until 2020 and the objectives of the project could not be achieved due to the Covid pandemic situation in 2020 and 2021. Although the budget	The costs incurred for the 2 projects should be re-examined regarding the contributions to

is being implemented under the Ministry had not been completed even though more than twice the planned time had passed. Although the approval of the Cabinet had obtained on various occasions to extend the time of those projects which had been started from the years 2017 and 2014 but actions had not been taken to present to the Cabinet an analysis of the inability to obtain the advantages identified under the basic objectives as planned due to those delays. Further, it had not been contributed to the national economy from the cost incurred at the amount of Rs. 2,354.05 million in the period of 9 years by above 2 projects so far.

estimates of 2023 have approved the provided of the necessary provisions only for the obligations that have already been made, but it had not been provided allocations to continue the project. The total cost for this was Rs. 1,188.35 million. There has been some contribution to the national economy, although the progress of this was 13.16 percent of the total project. Although the duration of the project was extended, the project has been temporarily stopped due to non-availability of funds.

Even though the contract was signed with a Chinese construction company on 28.11.2014 and the loan agreement was signed with the Exim Bank of China on 01.08.2018 on the approval of the Cabinet on 04.09.2014 for the Talpitigala Reservoir Project, the contractor left the work site, due to not activated of the loan agreement but detailed investigations have been conducted. Similarly, the land acquisition is being conducted by the Project Management Unit of the Irrigation Department and the planning work is being conducted by the CECB. But the construction promptly of remaining 7 km of the road including the installation of the pre-fixed bridge which has already been transported and the work on the project has been temporarily stopped as per the RAMP decision dated 07.10.2022 to temporarily stop the project in order to implement the rest of the activities later. Accordingly, the construction of the pre-fixed bridge has been completed. The work on two access roads has been completed and 55 percent of the work on the access road connecting the cities of Uva

the basic objectives.



Paranagama and Kandeketiya has been completed. The road is also expected to be completed before the end of this year.

- (b) The Ministry of Irrigation and Water Resources Management had signed an agreement on 05.11.2014 for an Engineering Procurement and Construction (EPC) category contract at the value of USD 690 million with a Chinese construction company according to the cabinet decision dated 30.09.2014 for the Ging Nilwala project which started in 2014. A mobilization advance of Rs.4,011,054,982 had been paid in 2014 and 2015 for this project which was proposed to be completed in 2017. The project was terminated in 2015, despite initial geological survey and survey activities being initiated. Although the functions have been assigned to the Department of Irrigation from the year 2023, the work has not been initiated up to now. Though it had been spent Rs.4,089.54 million as at 31 December 2023, but it had not been received any contribution to the national economy from this project.
- Mobilization Advances have been given in December 2014 and January 2015 and the measurement work and detailed feasibility study have now reached the final stage. The Feasibility Study Report proposing some changes due to the environmental and social issues that arose during the study for the structures proposed in 2014 has been given to the Ministry of Irrigation and Water Resources Management in May 2020. It has been difficult to get consensus in relating to Environmental issues. It is informed that, although the work of the Project Management Unit has been completed on 31 March 2023 and the project has been handed over to the Department of Irrigation but there have been delays in the completion of the project due to the studies of the project have been stopped from time to time and the inability to obtain the relevant environmental approvals so far.
- It should be re-examined about the contribution to the primary objectives from the cost incurred within a period of 8 years for the projects and actions should be taken to obtain the relevant environmental approvals.
- (c) It had been reached to a contract agreement with the Ministry of Irrigation and Water Management of Sri Lanka and an Iranian company on 28 April 2008 under the Engineering, Procurement and Construction (EPC) contract system with the main objective of diverting 145 million cubic meters of water annually from the Uma Oya basin to the Kirindioya basin in the southern region. The revised total cost estimate was USD 529.06 million or Rs. 74,325.75 million. The project had initially expected to be completed in 07 years

after starting in 2008 or on 15 November 2015. The amount of USD 504.05 million had been certified and paid for the capital works of the said project as at 31 December 2023. The following observations are made.

- (i) The contract had been reached on 27 November 2007 after the Cabinet decision to select the contractor without calling for competitive bids, subject to financing for the project by the Export Development Bank of Iran. The cost of this project of US dollars 453.913 million or Rs. 67,737,738 million had been financed from the funds of the Government of Sri Lanka as at 31 December 2023, after the financing of US dollars 50 million or Rs. 6,522.85 million under the foreign loan agreement as because of suspension of the loan by Iran due to economic sanctions in the year 2013. The Cabinet had not informed about the competitive advantages that the Government of Sri Lanka could have gained by inviting international competitive bids when deciding whether to proceed with this project through domestic funds.
- I agree to invite competitive prices in such cases and taking action in such a way that there is minimal impact on the treasury and foreign reserves if such a situation occurs in the future in international contracts in that way. I will observe whether it would be effective to inform the Cabinet with spending additional cost and time in such a situation where the project is in the final stage.
- It should be informed to the Cabinet by assessing of structural changes and competitive advantages in the performance of the projects.
- (ii) Although the project was scheduled to be completed in 7 years or on 15 November 2015, the delay period had passed 8 years by 31 December 2023. The electricity board had estimated that no more than Rs. 55 million would be saved by adding 120 megawatts of electricity to the power generation system which was expected from the project and accordingly, the loss caused by conducting the project for 8 years was Rs. 162,250 million. It was not possible to achieve the benefits of providing drinking water requirements in Bandarawela and Atampitiya areas of Badulla District and providing 30 million cubic meters
- The initial targets could not be achieved simultaneously as planned due to unforeseen and unavoidable reasons (sudden water leakage in the main tunnel, covid pandemic situation, economic downturn in the country in the years 2021/2022 and foreign exchange payment difficulties). The Ceylon Electricity Board, the National Water Supply and Drainage Board and the Irrigation Department should calculate the value of the lost benefits to the beneficiaries of the respective institutions because of that effect. However, the impact on the beneficiaries due to project
- An analysis should be conducted and reported about the delay in the benefits identified under the primary objectives of project and the additional costs to be incurred when extending the project period.

of water annually for drinking and industries and irrigating of 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 due to this delay.

delay is very minimal since the Irrigation Department has not completed the construction of canals for the parts of land that need to be irrigated in the lower valley so far and the Water Supply and Drainage Board has informed that it may take another 4 or 5 years to complete the rest of the large Bandarawela Water Project. However, the work on the reservoirs of the Uma Oya project has been completed now (from April 2024) and the government is receiving about rupees one hundred million daily as contributing 120 MW to the national power system by generating hydroelectricity.

- (iii) It had not considered the possibility of recover the loss incurred and calculating the related opportunity cost to the Republic of Sri Lanka who was the employer from the contractor as per the terms of the EPC contract agreement due to the delay of the project. Although it had been submitted 71 Cabinet Memoranda related to the project, but notwithstanding to the Cabinet had not be informed that the from 0.01 percent of the contract value up to a maximum of 5 percent or USD 26.453 million can be charged as late fees in accordance with Section 8.7 of the Contract Agreement. The USD 6,631,364 only had collected as late fee and the 5,305,091 USD of that amount had been paid back to the contractor according to the cabinet decision.

It is true that the project period was delayed by about 8 years unexpectedly due to the above reasons and similarly because of the several time extensions were given after reaching an agreement among the employer and the contractor about the reason for the delay, it is not practical to calculate the opportunity cost for the period of project delay. It is not the tradition to make such a calculation and inform the Cabinet in contract administration.

The information should be forwarded to the Cabinet regarding the recovery from the contractor as per the terms of the agreement.
- (iv) The cabinet memorandum submitted by the Minister of Irrigation on 08 January 2023 in order to extend the contract period of this project, which had proposed the time to complete the project up to 30 June 2023. In order to

The any additional cost not arises as there is no change in the contract value in each case on application for extension of time as per the contract agreement. Accordingly, there is not required to inform the

The opportunity cost of delay should be calculated and recovered as per the agreement

that, the approval had given subject to the observations dated 16 January 2023 submitted by the Minister of Finance. It is not possible to add 120MW of electricity to the national grid every day due to the continuous delay of the project, and the Ceylon Electricity Board has to spend an additional 100 million rupees per day to buy electricity from the external party, the Minister of Finance had suggested that the agreement of project extension should be prepared so that enable to obtain the suitable compensation for any day that passes after that date if the contractor fails to complete the project as at 30 June 2023. Nevertheless, the project period had extended and the project had implemented without preparing the agreement in accordance with it and ignoring the decision of the Cabinet. Furthermore, as it had stipulated that the work of the project should be completed within the extended period without any additional cost to the government as per the decisions of the Cabinet, in accordance with the provisions of the EPC contract agreement, the costs arising due to the extension of time should be borne by the contractor and the failure to complete the project on the scheduled date. It should have to be informed to the contractor in accordance with the provisions of the EPC contract agreement that the cost arising due to the extension of time should be borne by the contractor and the opportunity cost arising due to non-completion of the project on the due date will have to be charged, but this had not been concluded.

contractor about recovery of such cost. As stated in the last paragraph of the observations of the Minister of Finance, Economic Stabilization and National Policy in the said Cabinet Paper, is expressed that "proper compensation from the contractor only if he fails to complete the work on the contract as at 30.06.2023 after making all payments to the contractor within the above period that the project extension agreement should be prepared so as to be able to recover". The amount payable to the contractor on the part of the employer, could not be paid in fully due to shortage of foreign exchange in the country, fuel crisis, shortage of raw materials and not receiving of funds from the treasury on time. Therefore, it is not necessary to charge from contractor or sign an amended agreement for extension of time.

before extending the time. Action should be taken to establish a formal system for the calculation of the delay period and should be recovered based on the concurrence the contractor in accordance with the decision of the Cabinet.

- (v) The contractor had been requested USD 105,159,108 for 8 reasons related to extension of time by the submitted bill of second claim in July 2023. In I would like to declare that there has not been violation or departure from the International Contract Conditions (FIDIC) and the Actions should be taken to include accurate information while

- that, it has also included, the personnel cost of USD 56,152,590 and the machinery cost of USD 4,555,841 for the extended period of from December 2020 to July 2023 and the personnel cost of USD 10,402,273 and the machinery cost of USD 403,089 for the extended period of from 21 March 2020 to 15 June 2020. There, the contract administration had managed without considering the restrictions imposed by the conditions of FIDC international agreement and the Cabinet decisions and the said memorandum did not mention about the information of this claim or the collection of late fees from the contractor.
- restrictions imposed by the Cabinet Decisions during the administration of the contract.
- submitting Cabinet Memoradums.
- (vi) The contractor had claimed USD 181,337,171 in late fee claims for delays in the project. The cabinet had appointed a negotiation committee consisting of 7 officers to scutinize this and sobmit recommendations and the committee had recommended a late fee of USD 19,517,082 instead of the late fee of USD 181,337,171 which calculated and submitted by the contractor of this project. It had recommended paying an additional fee of US\$ 19,094,795 also as per the consent of the Cabinet on compassionate ground for financial constraints faced by the contractor due to economic sanctions imposed to the Government of Iran and other difficulties. Accordingly, the committee had submitted the Cabinet memorandum that recommending and interpreting of USD 38.62 million as late fees.
- Agree with this observation.The USD 19.071 million (Rs. 5,481.79 million) has been paid so far, from the amount already given to the Electricity Board for the above claims
- Late fee entitlement should be ascertained and calculated.
- (vii) Although the condition of "completing all the constructions within the extended period without any additional cost to the government and formally
- This observation is also correct. This amount is to be paid by the Ceylon Electricity Board at the end of the Defects Liability Period.
- Surcharge entitlement should be ascertained and calculated.

handing over the project to the government" had imposed during the extension of the contract period, but that condition had not been considered and the recommendation of the committee included unspecified and unprofessional recommendations to pay an additional fee of US\$ 19,094,795 on compassionate grounds and at the discretion of the Cabinet.

- (viii) The estimate of Rs. 133,476,320 presented by the Road Development Authority was approved and to pay beside deducting from his invoice by the contractor, going beyond his scope to extend and complete the 250 meters additionally in old road on the Badulla, Welimada road, which was a prerequisite for the construction of the Puhulpola Dam which was included in the original design replacement road of the project. Accordingly, although it had proposed to be handed over to the Road Development Authority to construct the road, but the road had not constructed and had paid which the amount of USD 115,156 out of the estimated cost of USD 1,514,094 for the construction of the Puhulpola dam work site access road and new road.
- It has been proposed to hand over the remaining 250 meters of Puhulpola Bypass Road to the Road Development Authority and a Cabinet Memorandum has been submitted for this purpose. Since a 1.9 km segment had to be acquired of the A05 road (Peradeniya, Welimada, Badulla, Chenkaladi road) which belonging to the Sri Lanka Road Development Authority for the construction of the Puhulpola Dam between the 93 km post and the 95 km post, a new part of the road (By pass Road) had to be constructed for continue the vehicle traffic. The Farab Company (FC) of Iran who is the contractor has completed the construction of this road, except for a 250 meter stretch which has been agreed to be improved on the road towards Badulla, in addition to the above mentioned road reconstruction. The completed part of the road has now been formally handed over to the Sri Lanka Road Development Authority at present and it is being used.
- The Procurement Committee has been recommended to be deducted the tax-free value of Rs. 110,709,836 which was in the estimate given by the Sri Lanka Road Development Authority from their payment vouchers.
- Disciplinary action should be taken against the officers who paid for the construction done by the contractor outside of the original plan.

Similaraly, the construction of Puhulpola dam site access road and the new road of 1.98 km which was estimated at USD 1,514,094 and the Puhulpola dam site access road has been completed and handed over to Sri Lanka Mahaweli Authority at present. The related total of USD 115,156 has been paid to the contractor. The amount of USD 1,202,667 has been paid to the contractor for the distance completed (1.73 km) of the new road so far and the completed part of the road has been handed over to RDA.

- (ix) The contractor had obtained USD 5,000,000 compensation from the relevant insurance company as compensation for the water leakage in the main tunnel of the project. The amount of Rs.1,931,346,396 had paid from the government fund by the date of 31 August 2021 which the compensation to be paid by the contractor to the victim parties. Even though the Committee of Public Accounts had ordered On 22 May 2019 that the compensation paid by the government should be recovered from the contractor, but Rs. 1,124.62 million had not been recovered up to the date of audit. The contractor company had made a request to refund the amount recovered from them. Further the company had requested from the project to refund the compensation paid to the affected people and the cost of USD 6.108 million incurred by the company for providing drinking water.
- The amount of Rs. 1,124.62 million had not been recovered even at the time of the audit from the amount of Rs. 1,931.34 million which had been paid by the Government of Sri Lanka on behalf of the contractor as compensation for the water leakage in the main tunnel of the project. similaraly, a request had made to refund to them , the amount recovered from the contractor. In addition, a request had been made to reimburse the amount of USD 6.108 million which incurred by the contractor for compensation and providing of drinking water. I agree with the audit observations.
- Actions should be taken to execute the orders given by the Committee of Public Accounts that to be recoverd the compensation paid by the government from the contractor.
- (x) According to the decision of the Cabinet for the Cabinet Memorandum No. අමස/24/0044/623/002 dated 05 February 2024 that submitted by the Minister of Irrigation the construction activities of the Uma Oya
- At present (2024.08.05) the Puhulpola Reservoir and related land and Dyaraba Reservoir and related Land and Link Tunnel have been handed over to the Mahaweli Authority of Sri Lanka, which
- Action should be taken to take over the relevant assets and documents from the Farab company to the

Multipurpose Development Project was completed at a cost of USD 514 million with the termination on the 31 March 2024, although the project management unit should be handed over operations of it and handing over the assets and documents, to the Ceylon Electricity Board and Sri Lanka Mahaweli Authority which maintain the project, but action had not been taken to taken over the relevant assets and documents by the project management unit from the Farab company and handing over to the relevant institutions.

taking over the operation and maintenance of the project. Similarly, the assets of underground power plant and Switch Yard, Dyaraba Alikotara main tunnel (15KM HR Tunnel), Switch Yard/ Badulla Transmission Line have been physically handed over to the Ceylon Electricity Board already. However, the financial values of the assets will be handed over to the respective organizations after the final cost calculation at the end of the error correction period since there are minor works to be completed even so.

project management unit and handed over to the relevant institutions.

(xi) The Technical Evaluation Committee which was appointed by the Ministry of Irrigation to submit the recommendations to the Cabinet-appointed Standing Procurement Committee (SCAPC) had recommended to extension of the project. Accordingly, although a cabinet memorandum was presented with the title of "Revision of the agreement schedule with FARAB company and extension of the service period of the minimum staff required for the project, including the project director" but there had not been mentioned any references regarding the not executed of the previous Cabinet decision that proper compensation should be obtained from the contractor for any day that passes after 30 June 2023.

It has not been mentioned about it in this Cabinet Memorandum, since there is not required to reach into an agreement to recover the compensation from the contractor.

Caution should be taken to include accurate information when submitting Cabinet Memorandums.

(d) The rupees of 38,500.90 million had estimated for the Maduru Oya South Bank Canal Development Project and 14 development activities had planned including the main canal. Although Rs.1,689,000,000 has been allocated from 2021 to 2023 and only



- (i) Rs. 836,104,531 or 50 percent has been spent out of that, for implementation of the project, an action plan has not been prepared and implemented on the basis of priorities. There it had planned to construct the main market road including bridges at an estimate of Rs.7,475 million without giving priority to the main canal. The improvement of the road from Damminna to Valamandiya from km 0+630 to km 4+030 had been started on 30 July 2021 with an estimate of Rs.93,459,575 under above and a cost of Rs.82,985,198 had been incurred inclusive of VAT by September 2023. It had been excavated around 3.4 k.m from place to place without a proper plan during the reconstruction of the above road.
- The Damminna Valamandiya road section from 0+630 Km to 3+400 Km is the main and shortest access road to the project site. The upgraded section under Contract No. MORBDP/Con/Rd/2021-11 had broken to an unusable level. Ministry of Irrigation was allocated Rs. 1,000, 4000, 4000 million each of for the years 2021, 2022, 2023 respectively. Accordingly, it was planned to complete all the constructions of Unit 01. Simultaneously, the access road to the project should have been upgraded to make it usable. The modernization of this road had included in the action plan of the year 2021. The award of contract was made on 16.07.2021 and commenced on 28 July 2021 subject to the approval of Additional Secretary (Technical Services) of the Ministry. The disturbances to Contract Work from March 2022 due to Covid Pandemic in 2021 and Market Shortage of Diesel and Bituminous Products informed in Writing. The all activities of the project were suspended on several occasions more than 159 days since launch of it due non-availability of construction material markets and fuel shortage. Therefore, the Mutual (alternative) termination was recommended in terms of Clause 20.6 of the Conditions of Contract and National Budget Circular 03/2022 dated 26 April 2022. The agreement was mutually terminated on 14 December 2022 as a result of this. Similarly, the net value (net variation) of extra works, additional works and canceled works (deleted works) was Rs. 4,944,744.63. Approval for that has been given by
- The activities should be identified which to be performed on the basis of priority and an action plan should be prepared and the work should be completed.

the project director on 14.09.2022. Similarly, although 7 percent of the contract value had been allocated for the price increase of the contract awarding value, accordance to the existed situation the total price increase for the work done according to the contract agreement was Rs. 12,067,706 . The payments were made as per the approval obtained from the Additional Secretary (Technology and Procurement) of the Ministry for this.

- (ii) An estimate had approved for the carpeting of Damminna Valamandiya road from 0+630 Km to 3+400 Km at a cost of Rs.93,459,575. The Mahaweli Authority of Sri Lanka had given priority to the construction of this road for the purpose of facilitating of access to the places where sand mining licenses were granted. There it had planned to develop the Damminna Valamandiya road with carpet, but after laying ABC there, instead of carpeting, a layer of asphalt had applied and the construction had terminated in the middle. The work of total cost of Rs.45,241,775 had not been completed at that time. The agreement had terminated by mutual concurrence regardless of that.
- The Ministry of Irrigation was allocated Rs. 1,000, 4,000, 4,000 million according to the estimates of 2021-2023 for the years 2021, 2022, 2023 respectively in relation to the damage of the road in less than a year. Accordingly, it was planned to complete all the constructions of Unit 01. Simultaneously, the modernization of this road to be usable as access road to the project was included in the action plan of the year 2021. Similarly, the surveying of this road was published in March 2021, the approval of estimates was published on 22.04.2021 and the newspaper notice for tenders was published on 01.05.2021. This contract was commenced on 28 July 2021. The construction activities were disrupted from August to December 2021 due to the Covid pandemic. The contraction work has been distrupted due to market shortage of diesel and bituminous products since March 2022. The contractor was informed in writing about these obstacles from time to time.
- Action should be taken to complete the work of road as planned.

- (iii) It was spent Rs. 82,985,198 on this 3.4 km road and the work of the road had been terminated in the middle after applying ABC and the roads where work had been terminated and was damaged place to place In less than a year. However, a deposit had not been taken for recovered the rehabilitation of damages from the contractors. The damage had not recovered or not rehabilitates the road.
- The mutual (alternative) termination was recommended in terms of Clause 20.6 of the Conditions of Contract and National Budget Circular 03/2022 dated 26 April 2022. The agreement was mutually terminated on 14 December 2022 as a result of this. Generally prime Coat is applying after ABC is laid and then the Asphalt Concrete should be coated. But the Asphalt Concrete coating could not be applied according to the facts mentioned above. Therefore, the damaging of this road is an inevitable process. As well as in Maduru Oya south bank area and the sand removed by the sand projects implemented in addition to it and the vehicles of the Valamandiya army camp are transported in this road. It is inevitable being damaged that a road which has only been covered with Prime Coat under those conditions. Although the estimate number 02 has been submitted for carpeting this access road in 2023, the RAMP committee did not approve this program. Therefore, it was not possible to complete the relevant work properly.
- Disciplinary action should be taken against the officers who did not take the deposit for the rehabilitation of the damage and the contractor should be arranged to carry out the road reconstruction work himself.
- (iv) It had been paid for Additional work of Rs.7,258,698, Extra work of Rs.13,948,399 and Rs. 12,067,706 for price increases without formal approval.
- The net value (net variation) of additional works, extra works and deleted works was Rs. 4,944,744. An approval for that has been given by the project director on 14.09.2022. Similarly, although an amount of 7% of the contract value had allocated for the price increase in the contract award, depending on the situation the total price increase for the work done according to the contract agreement was Rs. 12,067,706.,The payments were made for this according to the
- Disciplinary action should be taken against officers who made payments without formal approval.

approval obtained from the Secretary of the Ministry through the letter of the Additional Secretary of the Ministry (Technology and Procurement).

- (v) According to the 7th condition of the agreement, the second party who was the contractor had agreed to pay a compensation of Rs. 300,000 to the first party who was Sri Lanka Mahaweli Authority if the sand mining is neglected or failed within the specified period of the agreement. But 11 contractors had failed to conduct sand mining as per the agreement, but the compensation receivable of Rs. 3,300,000 had not been recovered from them.
- I had given permission for the sand projects and there is no connection to the Maduru Oya South Bank Development Project regarding the collection of compensation in those projects. The answers should be obtained from the Land Use and Planning Unit and the Residential Project Management - Zone B In this regard.
- Actions should be taken to recover the compensation receivable immediately.

### 3.2 Foreign Aid Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) The contract for lifting the anvil of Minipe with water control and measurement facilities for the left bank and right bank canals of Minipe had been conducted for almost 02 years without extension of dates and the progress of the construction of the contract was 22 percent during this period. It had decided in the Cabinet meeting held on 05 June 2023 to increase the the value of this contract amount up to Rs. 2,912.85 million and sign the revised agreement number 02 to have the remaining work to be done by the original contractor and also to extend the contract period until to 21 September 2023. Accordingly, the contract had signed without including the contract value in the signed revised agreement and the price variations of Rs. 996.10 million was included in the increased contract value of Rs.1,048.05 million.</p>	<p>The amendment No. 02 of the Contract Agreement was signed to amend only a few sub-clauses of the terms of the contract. The meaning of the accepted contract sum given in the original agreement is the sum accepted in the letter of acceptance for the execution and completion of the work and the amount accepted in letter of acceptance for corrective of any defect. However, the contract price means the price as defined in sub-section 141 and the amount is adjusted in accordance with the contract at each amendment and need not be recorded.</p>	<p>Disciplinary action should be taken against the officials who signed the agreement without including the contract value in the amended agreement and The increased contract value was Rs. 1,048.05 million in Rs. calculation and its it should be reviewed the calculation and legality of price variation of Rs. 996.10 million which was included in the increased contract value of Rs.1,048.05.</p>

- (b) The contract had been cancelled on 13 July 2021 while the progress was 64 percent which the construction of 6.225 Km lenth canal from Moragahakanda Reservoir, because the contractor was unable to continue the contract because of the financial difficulties. The amount could not be recovered when trying to recover the loss by encashing the performance security of the contractor, due to a legal case filed by the contractor. Accordingly, it could not be recovered Rs. 185.89 million from the advance security given and Rs. 390.51 million from the value of performance security up to now.
- The contract has not been "cancelled" and the contract has been "terminated". The related case has been submitted to the Attorney General's Department and decision of it is awaited.
- Action should be taken to recover the losses occurred to the government from the contractor as soon as the judgment is received.
- (c) Although the foreign company who was constructing the canal from Nabadagahawatta North West Canal to Mahakitula entrance tunnel of 17+050 Km should be completed the relevant contract during the period of 2018-2021, but the contract period had extended on 04 occasions till 05 December 2023, due to the delay of 2½ years in taking over the plots of land in the construction areas and settling the ownership of the land. the contract which had been given for Rs.7,226.62 million including VAT had been increased up to Rs.15,154.74 million by 7,928.12 million or 110 percent due to this delay. By giving the reasons that the increasing of the cost of construction materials due to economic and financial recession from year 2022, the allocated price variance of Rs. 162 million had been increased up to Rs. 5,827.7 million.
- The acquisition of the above mentioned plots of land has been completed and the construction work had been conducted thereafter.
- Land acquisition, project construction plans and the calculation of the price variance should be reviewed.
- (i) I agreed.
- The FIDIC formula is used as per the terms of the contract for price variation payments and the monthly price index issued by CIDA is used for this purpose.
- (ii) Even though Rs. 540 million had been allocated for additional work and quantity variation in the contract, but it had been increased by to Rs. 1,484.9 up to Rs. 2,024.9 million. There, it was planned to be constructed an open canal with a width of 13 meters then later decided to be constructed into 02 closed canals with a width of 10 meters using concrete by the consultant company and accordingly,
- The planning criteria had to be changed in order to avoid further delay in the process of acquisition of additional land and to avoid possible general public unrest. The contractor suffered from adverse weather conditions from September 2023 to December 2023 and accordingly the contract period
- The desing Plans of the consultant company who desinged the plans should be reviewed and the fees to be paid should be examined and pay.action should be taken to

- 45,425 cubic meters of concrete had to be utilized additionally, the cost of Rs. 1,245.54 million had to be spent additionally due to the change in the plans. Then the design planning of the consultant company was to be challenged. Although the contract period had been extended until 05 December 2023 only, the contract had not completed even on 31 December 2023 and the construction progress was 91.4 percent on that date.
- (iii) The Rs.10 million had been allocated for repair and modernization of Devahuwa Engineering Office belonging to Irrigation Department Under this contract and without fulfilling of it a two-storied house had acquired on rental basis for the consultant company of the project at a cost of 9.6 million out of that amount.
- (d) The following observations are made regarding the availability of consultancy services for Mahaweli Water Security Investment Programmes.
- (i) The head of the team appointed by the Asian Development Bank for the Technical Assistance (PPTA) of this program and later joined the service of the consulting company of this program and employed as the team leader and chief design engineer of the project for a period of 07 years. A monthly salary of 26,000 Euros (Rs. 8.5 million) had paid for above employment and Rs. 702.18 million had been paid as wages by June 2023. The independence of the supervision of program had challenged by the employment of a person who assisted in a number of Preparatory programs on behalf of the Asian Development Bank by employing with the programs of the consulting firm. It was contrarily to obtain
- was entitled to an extension of up to 17 May 2024.
- complete the construction work according to the basic plan and the benefits of it should be made available to the public.
- However, Devahuwa Irrigation Department building was inspected for renovation during the initial stage of the contract and As it was not in a repairable condition, the option chosen at short period was to rent a building which most centrally located for the project and establish the resident engineer's office there.
- Action should be taken against the officers who performed contrary to the original plan.
- A team appointed by the Asian Development Bank to prepare the Preparatory Technical Assistance (PPTA) for the Mahaweli Water Security Investment Program has submitted the relevant report to the Asian Development Bank. A separate procurement process for consulting services will be conducted by the Ministry of Irrigation and the Asian Development Bank and the service will be established and paid in accordance with the Consultancy Contract Agreement.
- Action should be taken against the officers who engaged in obtaining the consultancy services from a company where a person was involved in the number of Preparatory programs behalf of the Asian Development Bank.

the services of this consultant to paragraph 1.11 of the manual for the employ of consultants issued by the Asian Development Bank in 2013.

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| (ii)  | <p>Although the scope of the proposed construction contracts can be determined based on the performance of the contracts and the consultancy fees should be paid on that basis, but it had been reached to a consultancy contract agreement at the value of USD 22.09 million for a period of 60 months from 16 November 2015 for the payment of consultancy fees based on time. The project period had been extended resultant to the delay in the construction of the project and therefore the contract period had been extended on 06 occasions until 30 June 2024 and the cost had been increased to USD 41.56 million due to having to pay the consultancy fees based on this extended period. The increased consultant fees had to be paid from the amount allocated for other expenses since the Asian Development Bank had provided only USD 25.93 million to pay the consultancy fees for Phase 01 and 02. Also, The 34 foreigners had been recruited for consulting work at the beginning of the project and the 08 foreigners are being employing at present. The salary of ranging from 16,000 to 26,000 Euros (Rs. 5.5 million to Rs. 9 million and a daily subsistence allowance of ranging from 110 to 70 Euros were being paid for a foreign person per month. It had been Euro 12,843,998 (Rs. 4,341 million) as salaries and Euro 1,068,599 (Rs. 361.18 million) as subsistence allowances to these foreign persons as at 30 June 2023.</p> | <p>The Payment will be made according to the nature of the services required from the consultants as Lump Sum Payment and Time Base Payment in this Consultancy Contract Agreement. Time-based services are clearly for supervision of construction contract and construction contracts had to be extended till completion as the “completion of the contracts” was varying according to the time. The original allocation for the consultancy service was USD 22.09 million only for the first installment of the loan and for a period of 60 months. Several amendments and changes to the activities of Loan installments of 2 were approved, including changes in scope and some changes in the timing of implementation. Payment for consulting services will be paid in accordance with the consulting contract agreement.</p> <p>Action should be taken to review the consulting service contract agreement regarding the paying of consulting fees on time basis although consulting fees are to be paid on performance basis.</p> |
| (iii) | <p>The foreign consulting company had recruited 161 local employees through 02 local companies affiliated to it for the work of the project and 110 people were</p>  | <p>I do not agree<br/>The payments have been made for 34 staff members of the Colombo office and 117 staff of</p> <p>The consulting services contract agreement should be reviewed.</p>  |

being worked out of that. The consultancy fees were being paid on a time basis for the staff of 48 who employing in the 08 worksite offices located in the contract areas and Colombo project office in addition to this staff. Similarly, 14 vehicles and 03 motorcycles had given to the consulting company which were belonging to the project and Rs. 67 million had been incurred for operation and maintenance of those by the project as at 30 June 2023. It had been spent Rs. 9.65 million to modernize the head office which used by this consulting company and Rs. 13.47 million had spent for setting up offices belonging to the consulting company that conducting at different places and Rs. 84.83 million had also been spent for maintenance of those as at 30 June 2023

work site on time-based according to the contract agreement as at June 2023.

- (e) If the company or companies selected for the consultancy contract that have been previously engaged with other contracts (eg - preparing of design plans, environmental assessments) in relation to the relevant project , those companies should not be re-appointed for consultancy work according to paragraphs 1.11(b) and (c) of the guidelines which was issued by the Asian Development Bank in 2013 on the Engagement of Consultants by the Bank and Borrowers and persons having family and business relations with employees of Asian Development Bank and Borrowing (Ministry of Irrigation) Institutions should not contribute to the consultancy activities. Nevertheless, the company, which has received an amount of Rs. 102.98 million through the Mahaweli Consulting Bureau Company for design plans, environmental assessment reports, feasibility study reports and modernization reports for construction of the North Central and North West canals and Minipe canal rehabilitation projects in
- These two assignments are conducted in two periods and therefore those considered as mutually exclusive. The selection of consultants has been done by the Ministry of Irrigation and the Asian Development Bank.
- The consultancy services contract agreement and composition of the staff should be reviewed.



this program and has been acting as the Sri Lanka representative company of the main consultant company of this program since 2015. Further, the main staff of the representative company consisted of retired officers from the Ministry of Irrigation which was the borrower and the agencies underof it.

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| <p>(f) The construction progress could not be preserved of the Mahakitula Tunnel, Mahakitula and Mahakirula Reservoirs 02 and the canal construction contract between above 02 reservoirs during the period 2020-2024 at a value of Rs. 9,978.48 million due to the reasons of lack of suitable staff and construction equipment for construction work and insufficient work site management. As a result that the contract had terminated on 26 May 2023 and although the construction which the progress had been recorded at only 2.97 percent had been terminated which at that occasion , the 47,552 trees in a forest area of 778 acres had been cut down by the State Timber Corporation for the construction of Mahakitula and Mahakirula reservoirs and for the improvement of the Mahadambe reservoir located between reservoirs and similiary, 1.5 percent of the work on the dam had completed by excavating the foundations and laying down clay to construct the dam of the Mahakitula Reservoir.The expenditure of Rs. 58.2 million in order to that and Rs. 139 million for the supervision of the construction,</p> <p>Staff salaries of the consulting company, office expenses and maintenance of vehicles had been spent. The contractor who selected for this construction had also been conducted construction in the Yan Oya project and the cabinet had been given the approval on 30 August 2021 for utilize the 143 machinery and equipment which brought with tax concessions for</p> | <p>I agree.<br/>This contract had been “terminated.<br/><br/>The contractor has paid the due taxes and other charges payable to the Government according to the letter Ref: CIB/2020/00 177/CCR/014 and dated 06.10.2023 from the Office of the Director of Customs - Central Investigation.</p> | <p>Actions should be taken to recover the losses incurred to government by encash the Performance security bonds and advance security bonds.</p> |
| <p>(i)</p>   |  |  |

this project after paying the customs duty. The contractor had taken off these machinery due to termination of the contract.

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| (ii) | The 02 temporary buildings constructed using by Amano sheets and a canteen used by the consultant company had handed over to the project for the use of the contractor and consultant company after termination of the contract. These acquired buildings had not been valued by an independent committee when taking over and it had been spent Rs. 3.57 million for obtaining the services of a security company to protect the acquired buildings for 06 months from 01 September 2023.   | The contractor shall replace all temporary structures with temporary facilities at the time of demobilization as per the provisions of the contract (BOQ description of work item 1.2.1). A security company has been hired to protect the buildings (Main Camp) taken over from the contractor and the cost will be claimed from the contractor. | Acquired assets should be valued when taken over and Those should also be accounted.   |
| (g)  | Action had not been taken to signed the loan agreement between the Government of Sri Lanka and the Asian Development Bank for phase 03 of the program until 31 May 2024 and it could not been able to initiated the 03 main contracts of the North-West Canal Project so far that to be completed during 2019-2023.  | I agreed.<br>The remaining work is not possible to re-awarding at present due to lack of ADB financing or other alternative financing.  | Internal control over contract administration should be followed according to the plan.  |
| (h)  | It has been proposed to be done only to provide agricultural inputs to the farmers in the Mahaweli regions and bear the operational costs by the amount of 93 million dollars which is Proposed to be provided for phase 03 in the second quarter of 2024 for construction contract for the construction of 02 tunneling machines in the North Central Provincial Canal.<br>Accordingly, the Sri Lankan people had not been able to obtain the expected benefits because the time period for completing the remaining parts of this program had not been determined or a specific plan had not been prepared for the obtain of the necessary funds for the same. | The Government of Sri Lanka has allocated Rs. 2000 million as an initial step to achieve short-term benefits. The Department of External Resources is taking actions to secure financial flows with development partners as part of long-term strategies.   | The time period should be decided for the completion of the remaining works of the project and funding should be arranged accordingly. |

- (i) Construction of 27.7 km long tunnel from Konduruwawa to Namalpura in the North Central Province Canal under Phase 02 of Mahaweli Water Security Investment Program.
- (i) The Department of Wildlife Conservation had informed that the construction of the canal in the Minneriya – Giritale Natural Reserve, Sigiriya Sanctuary, Minneriya National Park and Hurulu Lake Reserve should be constructed of underground only using Cut & Cover, double Conduit or tunnel methodologies. Nevertheless, the method of excavation by using 02 tunnel boring machines which was a high-cost method, had selected as the technically appropriate, nationally effective, and environmentally least impact methodology.
- (ii) Although the Rs. 6,690.97 million which the total cost agreed to pay had been paid to the contractor for imported from China and transported to the site and installation of the 1st tunnel boring machine required for excavation but by the time when the tunnel boring machine cleared out of Trincomalee port, the cost was Rs. 2,155.97 million. Accordingly, an amount of Rs.4,535 million had paid for the transportation and assembly of the machine from Trincomalee to Namalpura and the profit of the contractor.
- (iii) The contract completion period was extended to 10 March 2027 due to the delay of 2½ years in awarding the contract and a second tunnel boring machine had deployed for the construction of the 10.4 Km which was to be constructed under Drill & Blasting method to complete the contract in June 2025.
- Do not agree.
- Action should be taken to select a excavation method that is technically appropriate, nationally effective, has the minimum impact on the environment and minimizes the cost.
- The competitive bidding procurement procedure has been followed in selecting a suitable contractor for this contract.
- Action should be taken to select the most efficient and cost-effective contracting method during bid evaluation and internal control over contract administration should be strengthened.
- Do not agreed.
- An internal control over contract administration should be strengthened.
- This was not conducted under a contract extension. The contract period of the original agreement with one TBM machine was 2,191 days. (Completion Date 10 March 2027)

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| (iv) | The consultancy firm had estimated Rs. 7,255.40 million as cost for manufacture, import, transporting to site and installation a tunnel boring machine and the contractor had submitted a price of Rs.6690.97 for that., The CIF values of the 02 machines were USD 10,581,673 (Rs. 2,147.97 million) and USD 9,476,342 (Rs. 3,523.61 million) respectively and that was the total value of Rs. 5,671.58 million according to the 2 invoices submitted to the project during the importation of these 2 machines. Accordingly, the consulting firm had prepared over estimation for this item without obtaining confirmation of the value of such a machine when preparing the bill of quantity.                 | The price submitted by the contractor for the TBM should be corrected as Rs.6,690.97 million.The estimated value and CIF value are not comparable. | Internal control over preparation of estimates and selection of consultants should be strengthened.  |
| (v)  | The Technology Evaluation Committee appointed by the Director General of the Department of Public Finance had not recommended the deployment of a 2nd tunnel boring machine and a special Technology Evaluation Committee had been appointed by the Secretary of the Ministry.Even though the committee had made recommendations that the feasibility of the proposal was doubtful and investment of additional funds for the contract could not be justified,action had not been taken to accept the decision of the committee. A reappointed Special Technical Evaluation Committee had recommended deployment of a 2nd Tunneling Machine. The Cabinet had not informed that 2 committees refused to purchase. | Answers were not submitted.  | The disciplinary action should be taken against officers who provided forgery information to the Cabinet without accepting the decision of the committee that the investment of additional funds could not be justified. |
| (vi) | It was agreed to be paid Rs. 6,690.97 million to the contractor for imported from China, transported to site and installation of the 02nd tunnel boring machine and Rs. 6,021.87 million had been paid out of that by 15 March 2024. The cost had been Rs.3,635.61 million by the time the tunneling machine released out of Trincomalee Port. Accordingly,it  | The price submitted by the contractor for the TBM should be corrected as Rs.6,690.97 million.The estimated value and CIF value are not comparable. | Actions should be taken to prepare the construction estimates in accordance with the decision of the Cabinet.  |

had been disputed during the audit that having paid of Rs. 3,055.36 million for transporting from Trincomalee to Konduruwa and assembling the machines.

The Cabinet had taken a decision not to temporarily operate 2nd Tunneling Machine from March 2023 to March 2024 that the imported on 22 November 2022. The machine has idled for 8 months from March 2023 after the installation and started operation from 23 November 2023. The 3 month progress was 399.91 meters which at the lower level from that date up to 29 February 2024.

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| (vii)  | The amount of Rs.179.99 millions had been included to the bill of quantity for eliminating and transport the 2 tunnel boring machines to the port at the end of the construction. Accordingly, it had not been agreeded to recover at least a part of the the cost spent of Rs. 13,381.94 million for 2 machines or recover the assessment amount and agreement had been made for take out of the two machines from the country with out charging.   | All these actions are mentioned under the requirement employer in the bid documents and the bidders have submitted their bids accordinly.  | Internal control over preparation of construction estimates and contract administration should be strengthened. |
| (viii) | An agreement had been made as such to construct a ring preparation factory and a warehouse at the amount of Rs. 928.72 million and Rs. 149.82 respectively and Rs. 2,892.3 million to manufacturing the rings in order to apply concrete rings to the places where there were weak rocks in the tunnel. It had been identified that 1,298 or 44 percent rings were cracked out of the 2,967 concrete rings manufactured in this factory and installed in the tunnel as at 31 January 2024. | Although the values given here do not match exactly with the relevant BOQ items or with the reports of identified cracks, but the incident is accepted as actually occurring. An engineering and contractor experts have been engaged in identifying the causes and corrective measures as per internationally accepted standards. The employer is also highly focused on ongoing treatment processes. | The damaged concrete rings should be restored.  |
| (ix)   | Although the the Anuradhapura North Water Supply Project had been started to supply drinking water to Rambewa, Medavachchiya area from the water taken from Mahakanadarava Reservoir through   | I agree. Land acquisition will be completed soon   | The land acquisition and compensation payment should be expedited to speed up the construction                  |

the construction of North Central Provincial Canal, under the estimated allocation of Rs. 11,515 million with the assistance of the Japan International Cooperation Agency and the work of it is nearing completion, but the drinking water project was not implemented until the water reached the Mahakanadarava Reservoir of this project due to the fact that the North Central Province Canal Project was not implemented within the stipulated time. Similarly, compensation had been paid for the land acquired for the construction of the North Central Province Canal and further, 259 plots of land or 40 percent of the total quantity were to be acquired. Besides, the ownership of 385 plots of land for which compensation has been paid has not been taken over from the land owners and handed over to the Ministry of Irrigation.

of the canal project so that the water supply project as can be implemented.

- (x) Only the 27.7 km long tunnel cana in the North Central Provincial Canal which is flowing 96 km from Moragahakanda Reservoir to Kandara Oya is planned to be completed by the end of the 2025 program at present. Therefore, a specific plan for building and obtain benefitsof the remaining 68.3 km of the canal had not been submitted untill the date of audit. The progress of the excavation contract of 27.7 km tunnel was 21 percent as at 31 December 2023.
- All documents for the procurement of the remaining contract packages have been completed and tenders can be awarded at any time after receipt of funds required for contract execution. The Department of External Resources is being conducted discussions with various international financial funding agencies to obtain sources of fund.
- A plan should be prepared and presented so that the public can get the benefits.
- (j) The contract for the construction of the tunnel connecting Kaluganga Moragahakanda which was awarded at a value of Rs.7,146.91 million in the year 2018 which was to be completed on 10 September 2021, but it had been extended up to 21 December 2023 due to the inability to complete it within the stipulated time. However, the construction progress was 90 percent on that day.
- The Standing Procurement Committee that appointed by the Cabinet has been recommended to a further extension until 31 August, 2024 and to be obtained the approval from the Cabinet.
- The project should be completed and must be made to receive benefits.

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| (k) | <p>The Mahaweli Water Security Investment Program had handed over a stock of fertilizers purchased in the year 2022 to 02 fertilizer companies under the Ministry of Agriculture and there had been a shortage of 161.5 metric tons (3,230 bags) of fertilizers value of Rs. 55.23 million. Although according to the recommendation had been given from the committee of investigation appointed by the Secretary of the Ministry of Irrigation to conduct investigations that the reports of the Port Authority should be re-corrected and the deficiency recovered from the supplier company based on those correct reports, the loss could not be recovered in the year under review.</p> | <p>Action has been initiated to investigate the matter.</p>  | <p>Deficiency of fertilizer stocks should be recovered.</p>  |
| (l) | <p>A project to supply and install 50 units of Poly Tunnel for local production of hybrid chilli seeds to farmers in 5 Mahaweli Zones and Hurulu Lake areas had implemented at a contract value of Rs.91.57 million under the Local Agricultural Crops Improvement Program. The contractor selected for this purpose had not previous experience in constructing of Poly Tunnel and this company was made losses during 2018-2020 and earned a profit only during period of 2021. Although it had agreed to complete the work by 15 May 2023, only 42 Poly Tunnels had been installed by 30 April 2024 and the contract period had been extended on three occasions until 31 May 2024.</p>    | <p>The contract will proceed as per the agreement, if the time given for completion of the work exceeds 31 May 2024.</p> | <p>It should be examined whether the members of the Technical Evaluation Committee have acted improperly and disciplinary action should be taken against those officers.</p> |

### 3.3 Assets Management

#### Audit Observation

#### Comments of the Chief Recommendation Accounting Officer

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| (a) | <p>The 654 vehicles were registered in the name of the Ministry of Irrigation and according to the vehicle register and the number of vehicles in use it was 74. Accordingly, the 580 vehicles had not been in the custody of the Ministry as at the date of audit.</p> | <p>Answers were not submitted.</p> | <p>Actions should be taken to examine that the vehicle are not custody of the ministry.</p> |
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- (b) Although a long period of time has passed since release the 43 vehicles to the Irrigation Department, 253 vehicles to the Mahaweli Authority, 04 vehicles to the Energy Ministry and 28 vehicles to other ministries from among the 580 vehicles registered in the name of the Ministry, but actions has not been taken to transfer the ownership of those vehicles to above institutions. There had not been obtained the confirmations that the respective vehicles are in the custody of those institutions.
- The vehicles imported for all institutions and projects under the Ministry are registered under the name of the Secretary of the Ministry and further regulating and monitoring of the vehicles should be conducted by the institutions that received the vehicles after those are handed over to the relevant departments, institutions or projects. The Irrigation Department and Mahaweli Authority have separate transport division and these divisions regulate the relevant vehicles. The officers in charge in the projects, of the transport subject perform a task regarding the vehicles related to each project. It is possible to obtain information about those vehicles from relevant institutions or projects. Action will be taken give instructions that should be to maintain the log records of these vehicles by each institution.
- An internal control in relating to the vehicle administration should be strengthened.
- (c) The 16 vehicles were not in the custody of the Mahaweli Authority out of the 253 vehicles that had given to the Mahaweli Authority and the vehicles were being used by various departments without documented at the head office of the authority. Accordingly, although 11 double cab vehicles had been provided to DSDP/Tanamalwila of Sri Lanka Mahaweli Authority, but it had not been such regional office located in Thanamalwila within the organizational structure of Mahaweli Authority.
- It has been inquired from the Mahaweli Authority and the Department of Irrigation about the relevant matters and it will submit the answers to you after receiving from them.
- Vehicles registered in the name of the Ministry should be handed over to the given institutions.



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| (d) | The cab No. 56-8184 which was in the name of Ministry Secretary had auctioned by the Mahaweli Authority in the year 2023 without the approval of the Ministry and the income of it had not credited to the Consolidated Fund. | It has been inquired from the Mahaweli Authority and the Department of Irrigation about the relevant matters and it will submit the answers to you after receiving from them. | The auction of the vehicle should be examined and the proceeds credited to the Consolidated Fund should be confirmed. |
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### 3.4 Losses and Damage

#### Audit Observation

There was a total balance of Rs.10,561,210 in relation to 2 vehicle accidents to be further recovered or written off or left in the statement of written off from the books which was included in the financial statements and out of that, the loss of Rs. 10,482,500 could not be collected in connection with the accident of the vehicle number WPPG 0456 from the insurance company as at 31 December 2023. The insurance company had refused to pay the claim as the driver had drunk alcohol while driving the vehicle at the time of the accident and it had been recommended to recover of loss from the driver who was the responsible party according to the F,R 104 investigation. However, actions had not been taken to recover the loss.

#### Comments of the Chief Accounting Officer

The Project Director of the Moragahakanda Kalugagan Development Project had not responded to the letters dated 22.11.2022 and 06.02.2023 regarding the recovery of the loss amount of Rs.10,482,500 from Mr. M.W.Vijitha Bandara Wijetunga who has been found guilty as per the investigation according to F.R.104 (4). Then the Ministry also sent a letter on 10.10.2023 and informed that the reply should be given within 7 days of receiving the said letter and otherwise steps will have to be taken to inform the Attorney General to obtain the legal action., The legal officer of the Ministry has taken actions to forward the relevant documents by the letter dated 09.10.2023 to the Honorable Attorney General through the Secretary that requesting for legal assistance and advice from the Attorney General's Department to take necessary legal action to recover the relevant amount of loss.

the said loss should be recovered immediately as per the recommendation of F.R investigation.

### 3.5 Management Weaknesses

Audit Observation	Comment of the chief Accounting Officer	Recommendation
(a) Even though 13 years had passed since the Secretary of the Ministry was ordered in the meeting of the Committee on Public Accounts held on 22 March 2011 to correct the said procedure as the payment procedure followed by the Department of Irrigation is not in accordance with the assignment of functions related to financial control in terms of Financial Regulation 135, even by 31 May 2024 the order had not implemented.	The replies have been submitted by the covering letter MI/F-13/AQ/IRRI DEPART/GEN and 2023.12.01 dated to the Chairman of the Committee of Public Accounts to correct the payment procedure followed by the Department of Irrigation as it is not in accordance with the assignment of functions related to financial control in terms of Financial Regulation 135.	The orders given by the Committee of Public Accounts should be implemented and should be reported to the Committee of Public Accounts along with an assessment thereof.
(b) Although Sri Lanka Mahaweli Authority had submitted invoices of Rs.3,697,431,708 during the period 2021-2023 for the electricity generated by Phases I, II and III of the Moragakanda Hydroelectric Power Plant project, but only had been paid of 23 percent or Rs. 853,731,252 by the Ceylon Electricity Board. The arrears of revenue of Rs. 2,843,700,456 to be paid to the Department of Treasury Operations as mentioned above and it had not possible to collect the relevant money and interest from the Ceylon Electricity Board due to the fact that there was not an agreement to specify the date for payment of the submitted invoices and allow sufficient payment time and then interest could be charged.	It has become problematic to give the value due to the fact that the amount of money transferred for the bill values receivable to us in this year is not given as an invoice. In informing about whether the bills have been settled in this year, when informing about whether the bills have been settled in this year. I would like to further kindly inform that a system will be prepared for reaching into an agreement so that the interest can be charged after giving sufficient time that regarding the arrears to be collected from the Ceylon Electricity Board and the date on which the payments should be made and informing the relevant parties for its implementation in the future.	Actions should be taken to reach to an agreement so that interest can be charged regarding the arrears of revenue to be collected from the Ceylon Electricity Board after given the date of payment, sufficient time.
(c) Although , It has been passed 10 years since the release the report of the auditor general's on the 2013 financial statements of the Poor Economic Advancement and Community Enhancement (PEACE) project , which	The five members committee appointed by the Secretary, Ministry of Irrigation to provide information on the matters inquired in the audit report relating to obtaining the settlement	Action should be taken against the officers who have not prepared the settlement certificates by making attention

- was implemented in the period 2003-2013 under the assistance of the Japanese government, but sufficient attention had not paid to the weaknesses in the asset administration which were pointed out by the above report. Even though it would have taken a year to requested the clearance certificates related to those observations by JICA institute, but the relevant clearance certificates could not be issued due to the fact that the ministry had not submitted reliable information about the existence and use of the water bowsers, cabs and freezer cabs purchased under the project. As a result, a situation had been created where the Sri Lankan government had to settle the Japanese government's aid loan amount simultaneously.
- certificate for the year ended 31 December 2013 of Poor Economic Advancement and Community Enhancement (PEACE) project and the final report has been submitted with supporting documents according to the investigation conducted by the committee regarding the fixed assets such as water bowser, Frazo cab and freezer cab purchased for the project.
- to the issues pointed out by the Auditor General regarding the weaknesses in asset administration.
- (d) The approval had given by the decision of the Cabinet No. අම/18/2083/803/031 dated 18 September 2018 for the reorganization of the Mahaweli Livestock and Agribusiness (Pvt) Company established using the resources of the Sri Lanka Mahaweli Authority under the Ministry as a public private joint venture with an external investor selected by the project committee. Accordingly, the Board of Directors of the Authority had approved by the decision numbered 2022/338/5117 dated 28 February 2022 to call for proposals for the operation of the company as a joint venture with public private shares. According to the timeline of the work expected to be conducted for the relevant reorganization, although a suitable projects should be selected by 22 April 2024, but that work had not been completed.
- The process up to calling for project reports from the investors has been done within the time frame mentioned according to the time frame of the work expected to be done in the restructuring program. However, although the received project reports have been submitted to the project committee, but the project committee has not completed the process of selecting suitable project reports from among those as at 30.07.2024..
- According to the restructuring approvals, the suitable projects of the investors should be selected according to the timeline of the expected works.
- (e) Even though the two subsidiary companies belonging to the Sri Lanka Mahaweli Authority, had decided to be liquidated the Mahaweli Venture Capital
- The liquidators have handed over Form 29B to the office of Company Registrar on 24.06.2024 after completing the liquidation of
- Action should be taken to complete the liquidation procedures.

(Pvt) Company in 2012 and Natural Resource Management (Pvt) Company in 2019, but the liquidation had not been completed by the audited date of 31 May 2024.

Mahaweli Venture Capital (Pvt). The all balances in the accounts of this company have been credited to the account of the Mahaweli Authority at this moment.

#### 4. Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) Two positions in the Ministry were assigned to a Class III officer of the Sri Lanka Engineering Service as Assistant Director (Procurement) and Director (Technical Audit) of the Ministry in 2018 and it was assigned the responsibility of 4 positions as the chief executive officer and board member of a company under that and as the project director of a project under the ministry.</p>		
<p>(i) Although the said officer had appointed to perform the duties of the post of Director (Technical Audit) of the Ministry of Irrigation from 15 September 2018, the approval of the Public Service Commission was not submitted to the audit.</p>	<p>The obtaining the formal approval from the Public Service Commission for the perform of duties from 15 September 2020 to 20 April 2023 has been delayed as the arrival of officers for duties was limited due to the Corona pandemic situation at that time. Later that post became vacant and the Ministry of Public Administration Home Affairs Provincial Councils and Local Government has been informed to appoint a suitable permanent officer for that post by letter No. MI/MA/AD/02/07 and dated 2023.07.11. An action has been taken for the duty coverage of the said post.</p>	<p>The approval of the Public Service Commission should be obtained for performing duties in addition to the permanent post.</p>

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| (ii)  | Although an officer should be appointed for the post of Project Director on a full-time basis in a project according to section 2:3:2 of Management Service Circular No. 01/2019, but the concerned officer has been appointed on a acting basis for the post of Project Director of Climate Change Adaptation and Water Management Project from 29th September 2020.   | An information have been inquired from the project staff and progress management department of the Ministry in this regard..   | Action should be taken as per the Management Service circular.  |
| (iii) | The Mahaweli Consultancy Bureau was established as a company owned by the Sri Lanka Mahaweli Authority under the Ministry. There is no provision for holding a position in such an organization while still holding a position in the government service and a government official must be temporarily or permanently released from government service to serve in such an organization as per the Public Service Commission Rules of Procedure. However, this officer had appointed as the Chief Executive Officer and Board Member of the Mahaweli Counsultancy Bureau while still in government service. | The matter has been inquired from the Mahaweli Counsultancy Service Bureau in this regard as this matter has been considered with through the MCB(Sec)2021 file.   | Actions should be taken in accordance with the public service commission rules of procedure which was published in the special gazette. |
| (b)   | The approved carder of the Ministry was 441 and the actual carder was 353. Accordingly, there were 88 vacancies in 16 senior level posts, 03 tertiary level posts, 53 secondary level posts and 16 primary level posts in the year under review.  | The 10 posts of senior level , 15 posts of secondary level and 12 posts primary level are vacant out of 188 approved staff in Mahaweli Division of the Ministry In 2023.The Multipurpose Development Department has temporarily recruited an officer for the post of primary level driver. | Requirement of staff should be reviewed and unnecessary posts suppressed and approved.  |