

## **Mahaweli Authority of Sri Lanka and its Subsidiaries - 2020**

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### **1. Financial Statement**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Mahaweli Authority of Sri Lanka and its Subsidiaries for the year ended 31 December 2020 comprising the statements of financial position as at 31 December 2020 and the statements of comprehensive income, statements of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements of the Authority and its Subsidiaries give a true and fair view of the financial position as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

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

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

#### **1.3 Responsibilities of Management and Related Governing Parties in Relation to Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Authority's **ability** to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the **Authority** or to cease operations, or has no realistic alternative but to do so.

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

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

## 1.4 Auditor's Responsibility in Auditing Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

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

## 1.5 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

<b>Non - compliance with Reference to Applicable Standards</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a) Although the Authority had initially included the canals with a length of 8,708 km at a cost of Rs74,989,140,000 in the financial statements as fixed assets, the manner in which the canals were valued in accordance with Sri Lanka Public Sector Accounting Standards No. 01 and the relevant accounting policy had not been disclosed in the financial statements. Those canals had not been included in the fixed assets register.	The revaluation value of the canals is included in the financial statement under "Property Plant and Equipment" and, the accounting policy in this regard is illustrated by Note 3.2.	The manner in which the canals were assessed in accordance with the Sri Lanka Public Sector Accounting Standards and the relevant accounting policy should be disclosed in the financial statements and recorded in the Fixed Assets Register.
(b) Although public sector infrastructure development assets should be identified and accounted for in accordance with Sri Lanka Public Sector Accounting Standards No. 07, twelve major dams and 463 tanks maintained by the Authority had not	Arrangements will be made to extensively inspect the ownership of the 12 main dams and 463 tanks maintained by the Authority and examine whether they are listed as fixed assets in the final accounts on	Assets owned by the Authority should be accounted for.

been assessed and stated in the financial statements.

any ownership of other Departments, Corporations and Statutory Bodies and taken into account in future.

(c) Although the fair values of the assets that differs materially and quickly from its carrying amount should be revalued and accounted for as per Paragraph 47 of the Sri Lanka Public Sector Accounting Standards 07 , the Authority has not done so for the 02 plot of lands that purchased at a cost of Rs.64,320,853 during the period of 1984-1989 and even the cost of them had not been accounted for. Likewise, the Authority had not identified its lands where the Regional Offices, Divisions, Quarters and Circuit Bungalows located and accounted for.

The two plots of land have been referred to the Valuation Department for obtaining the relevant valuation reports. Relevant valuation reports have not been obtained so far due to the inability of the Authority to submit proof of title (deeds) of the land to be provided for the said valuation activities. Therefore, I would like to inform you that actions will be taken to obtain the relevant copies of the deeds and account for in the year 2021.

Assets owned by the Authority should be accounted for.

### 1.5.3 Accounting Policies

#### Audit Observations

An appropriate accounting policy had not been introduced to identify the assets of capital nature generated from rehabilitation and upgradation expenditure and accounted for and the recurrent expenditure of the Major Dams and Reservoirs Division amounting to Rs. 15,023,938 had been accounted for as rehabilitation and improvement expenditure. As a result, the deficit for the year had been overstated in the financial statements by the same amount.

#### Comments of the Management

Actions have been taken to correct by a journal entry.

#### Recommendations

An appropriate accounting policy should be introduced to be identified the assets of capital nature generated from rehabilitation and improvement costs and accounted for.

#### 1.5.4 Accounting Deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendations
<p>(a) Thirty water treatment plants built in the Welikanda and Welioya area at a cost of Rs.80,000,000 during the period 2015 – 2018 had been recorded as expenses instead of being accounted for as fixed assets. As a result, the deficit for the year had been overstated by the same amount in the financial statements. Also, the administrative activities had been given to the farmers' organizations without entering into agreement.</p>	<p>Thirty Anti-water related purifiers had been installed in the Mahaweli B and L Zones at a cost of Rs. 80 Million in collaboration with the National Community Water Supply Department on the provisions of the Authority and those machines have been formally handed over (removed of) to community based organizations. The maintainance and administrative activities of them are being carried out by these community based organizations under the supervision of the Mahaweli Authority. Accordingly, these expenses have been included in the final accounts as an expenditure under Head 2815.</p>	<p>Capital expenditure should be accounted for as fixed assets.</p>
<p>(b) Even though a part of assets transferred to the Authority from the Dam Protection and Water Resources Planning Project cost at Rs.671,503,748 had been revalued and accounted for at an amount of Rs.537,950,118, the balance of assets valued at Rs.13,355,630 had not been revalued and accounted for. These assets and the assets belonging to the Moragahakanda Hydro Power Plant which was transferred by the Moragahakanda Project valued at</p>	<p>Out of the unaccounted assets so far, the assets valued at Rs. 12,561,000 have been handed over to the Moragahakanda Project and those assets are included in the project's fixed asset register. Further, there are problems in accounting for the remaining assets due to the fact that the project has not followed a formal procedure in handing over the assets. It is informed that these issues will be</p>	<p>Assets should be formally taking over and accounted for</p>

Rs.31,764,287,274 had been accounted for as creditors rather than as a grant. As a result, the Authority's current liabilities and net assets were overstated and understated by Rs. 32,302,237,392 respectively in the financial statements.

resolved and the total value will be accounted for in the year 2021 as a "grant". The Moragahakanda Project is still an active project. When the Moragahakanda Hydro Power Plant valued at Rs.31,764,284,274 was handed over to the Authority by this Project, it has been removed from the fixed assets account of the accounts of the Moragahakanda Project and shown as "Debtors" and since the Project is still in active, the Authority has shown it as "creditors" in parallel to that.

If deductions are made against the income / fund of the project accounts on the closing date of the project, then I would like to inform you that it can be shown as a "grant" in the financial statements of the Authority.

### 1.5.5 Preperation of Consolidated Financial Statement

Audit Observations	Comments of the Management	Recommendations
<p>Mahaweli Livestock and Agribusiness (Pvt) Ltd. and Mahaweli Consultancy Services Bureau (Pvt) Ltd. had not submitted their financial statements for the year under review to the audit even by 01 July 2021. Therefore, when consolidate the financial statements of the Authority with the financial statements of those companies, consolidated financial statements were prepared based on unaudited financial statements.</p>	<p>The Authority has used unaudited accounts every year in the inclusion of the accounts of its subsidiaries in the consolidated financial statements. As the Subsidiaries are also required to submit their financial statements to the audit prior to February 28 of each year, so if they audit those financial statements and prepare consolidated financial statements based on the audited financial statements, Consolidated financial statements cannot be prepared and submitted to the audit on the first statutory</p>	<p>When submitting consolidated financial statements, the financial statements of the relevant subsidiaries should be submitted to the audit on the due date.</p>

requirement by February 28 of each year. However, the Mahaweli Livestock & Agribusiness (Pvt) Ltd. on 24 February 2021 with the approval of the Board of Directors and the Mahaweli Consultancy Services Bureau (Pvt) Ltd. with the approval of its Board of Directors after resolving some of the legal issues of the Company had submitted its annual financial statements to the Audit.

### 1.5.6 Lack of Written Evidence for the Audit

Item	Value	Unsubmitted Audit Evidence	Comments of the Management	Recommendation
	Rs.			
(a) Investment	20,477,000	Certificates of Shares	Actions will be taken to look into this and make a presentation in the future.	Relevant balance confirmations should be submitted to the audit.
(b) Savings Account	2,632,908	Balance Confirmations and Pass Book	-do-	-do-
(c) Fixed Deposits	727,481	Certificates of Deposits and Balance Confirmations	-do-	-do-

### 1.6 Accounts Receivable And Payable

#### 1.6.1 Receivables

##### Audit Observations

Although it had been released Rs. 150,703,811 from the money given to Regional Development Bank for granting loans to the colonists that recommended by the Authority under the loan programmes implemented by Mahaweli Authority.

##### Comments of the Management

Actions will be taken to disclose each debtor balance and the debtor's age analysis with the financial statement for the year 2021.

##### Recommendations

A list of each debtor balance and a debtor's age analysis pertaining to the total loan amount issued should be submitted with the financial statements.

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

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 The following observations are made.

<b>Reference to the Laws, Rules, Regulations etc.</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
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(a) Section 3.8.2 of the Chapter III of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Although the maximum period of service in each category of workplace had to be specified, no such maximum period had been so specified in the transfer procedure prepared by the Transfer Boards of the Authority. As a result, 11 employees in civil staff, for more than 05 years, 13 employees for more than 10 years and 6 for more than 20 years had served in the Mahaweli Defense Force by 02 February 2021, the date of audit .	Although the annual transfers could not be made according to the transfer procedure due to the epidemic situation in 2020 and 2021, the security forces have now been placed in a suitable internal arrangement. Likewise, actions will be taken to deploy the civil staff as appropriate.	The transfer procedure of the Authority should be prepared in accordance with the Establishments Code.
(b) Section 6.5.1 of the Public Enterprises Circular No. PED 12 dated 3 June 2003.	Although the Financial Statements and Draft Annual Report should be submitted to the Audit within 60 days of the end of the financial year, the Draft Annual Report had not been submitted with the Financial Statements for the year under review.	Made a note to present with the financial statements for the year 2021.	Arrangements should be made to submit the Financial Statements and the Draft Annual Report to the Audit in accordance with the Circular.
(c) The Guideline issued on Valuation of Non-financial Assets by the Comptroller General's Office on 31 December 2018.			



- (i) Paragraph 2.1 Assessment of all government owned lands is essential where priority should be given to the assessment of government lands where government offices, circuit bungalows, workplaces, etc. are located, but action had not been taken to assess the lands where the Authority's offices, resorts and workplaces are located.. The lands are government lands and the Authority was vested the power only for the management and administration. Accordingly, the Mahaweli Authority has the right to use the lands in the area of jurisdiction declared by the Gazette for the Authority to maintain office premises of the Mahaweli Authority, construct necessary buildings to provide services and for the community development activities and the absolute ownership of those lands does not belong to the Mahaweli Authority. Similarly, the Lands use for development activities are also handed over to Mahaweli settlers and entrepreneurs. Here, lands, irrigation, agriculture and rainfed lands are provided free of charge to the farming community under the Land Development Ordinance and disposal of lands are being done levying lease on government valuation as commercial and investment lands under the State Land Ordinance and charging government assessment as housing land to entrepreneurs and high income people. Steps should be taken to assess the government lands used for the activities of the Authority in accordance with the circular provisions
- (ii) Paragraph 2.2 Although all the buildings except for those identified as an ancient heritage The relevant information for the last year have been updated and submitted to Steps should be taken to assess the buildings in

- should be assessed and information about the buildings should be submitted to the Comptroller General, that information had not been submitted even by 31 December 2020.
- the Comptroller General by now. Updating information for the year under review has been delayed due to the closure of offices due to the current epidemic situation and actions will be taken to update the information and submit it to the Comptroller General as soon as possible.
- accordance with the circular and submit the relevant details.
- (d) Section 3.1 of the Internal Circular of the Mahaweli Authority No. 2009/12/04/ Admin dated 24 December 2009
- Although 12.5 per cent of the monthly salary of government employees of other institutions should be charged as monthly rental, in contrary to that, various monthly charges were levied on 39 official quarters owned by the Digana Main Dams and Reservoir Operations Division as at 08 February 2021 the date of audit.
- Measures have been taken to charge 12.5 per cent of the monthly salary as house rent for official residences given to public servants in other institutions. Legal actions have been taken in 2018 to acquire the possession from the officers who have obtained official quarters but not do so.
- Steps should be taken to charge for the official quarters as per the circular rules.
- (e) Internal Circular of the Mahaweli Authority No. DG /05/2017 dated 09 May 2017
- (i) Section a 1-1
- Although the Housing Committee of the Zone / Division should identify the official housing requirements of the officers and provide official quarters only with the prior approval of the Director General, on the contrary, the Main Dams and Reservoir Operations Division had provided five
- Arrangements have been made in terms of Section A 1-2 of the Circular to provide temporary accommodation to external government officials, if there are vacant quaters after providing accommodation to the employees of the Authority at the Digana Official Housing
- According to the circular rules, official quarters should be provided to external government officials.

official quarters to external parties. Complex. From the beginning, decisions have been taken up to now through the Housing Committee in providing houses to external institutions. However, according to the circular, these houses have been provided on a temporary basis on the recommendation of the Head of the relevant government agency, in accordance with the formal annual agreements. However, actions will be taken to implement Section A1-1 of the Internal Circular from the year 2021.

(ii) Section a 1-1 7

Although official quarters should be handed over to external government officials subject to a formal written handing over document and an agreement, in contrary to that, 24 official quarters belonging to the Digana Main Dam and Reservoir Operations Division had been handed over to employees of the Ceylon Electricity Board without an agreement. These quarters had been provided in 1985/1986 and actions had not been taken to identify the current occupants and if they are the employees who are entitled to have the quarters, to be entered into agreements or to take necessary legal actions to Twenty four houses in the Digana official quarters owned by the Authority have been provided since 1985 for the residence of the employees of the Ceylon Electricity Board. A fixed amount of rent has been charged from the residents and sent to the Authority so far. Although the occupants of the houses were identified and informed several times in writing to enter into an agreement with our institution, according to the Authority's internal circular, there was no response to those instructions. However, the occupants of the houses have sent a fixed amount of money to the Authority as monthly rental According to the circular rules, official quarters should be provided to external government officials subject to a formal written handing over document and an agreement only.

remove the unauthorized residence if they are unauthorized occupants.

determined in the year 2002. Although the Director, Major Dams and Reservoir Operations has sent letters several times regarding the non-signing of agreements by the employees of the Ceylon Electricity Board due to failure to response to this, a written notification was sent to the Chairman of the Ceylon Electricity Board with my signature. So far no reply has been received to these letters and the Central Provincial Regional Manager of the Ceylon Electricity Board has informed that the employees have entered into an internal agreement with the CEB. The CEB has further stated that these quarters have been taken over and will be maintained by them and there is no need to enter into an agreement with us. However, the Secretary to the Ministry of Power and Energy has been made aware and informed in writing for further actions.

(iii) Section a - 3 and c - 1

Although the houses and buildings of the Authority should be grouped and maintained separate asset registers, the Main Dams and Reservoir Operations Division had not grouped official residences and buildings and maintained fixed asset registers. Further, although the

The official housing administration custody of the Digana Official Quarters Complex is operated by three Divisions of the Authority. Those are, Resident Project Manager (Zone E), Mahaweli Defense Force and Major Dams and Reservoir Operations

Steps should be taken to maintain official quarters buildings in accordance with circular provisions.

houses or buildings which are not economically viable to be maintained should be properly identified and proposals should be submitted to the Director General for action to be taken in this regard, it had not been done so. There were 3 official quarters that were abandoned due to improper maintenance. Division. Thus, the number of houses that are managed and maintained by the Digana Main Dams and Reservoir Operations Division was 85. It is informed that the necessary steps will be taken within the existing provision limits to maintain these houses and buildings properly in the future. Relevant officials were informed to act in accordance with the internal circular instructions and actions have been taken to update the assets register for the year 2021 accordingly.

- (f) Internal Circular of the Mahaweli Authority No. DG /04/2017 dated 08 March 2017.
- When awarding a contract to a farmers' organization, the contract should be awarded after the submission of recommendations by the Unit Manager, Institutional Development Officer, Engineering Assistant, Divisional Manager, Deputy Residential Project Manager (Development), Deputy Residential Project Manager (Technical Services) to the Residential Project Manager / project Director on awarding the contract in writing. However, when awarding direct contracts to the Mahaweli Farmers' Organization, Kandalama Left Canal for a value of Rs. 1,430,000 for the recruitment of manpower for the maintenance of the
- Contracts are awarded by an Office of the Engineer-in-charge to Samurdhi Societies, Farmers' Organizations of Agraian Services, Farmers' Organizations of the Mahaweli Authority and other registered organizations. When awarding contracts to Mahaweli Farmers' Associations, the relevant documents are forwarded to the Divisional Manager to whom the Farmers' Association is entitled and , therein, the Divisional Manager examines the relevant circulars and makes recommendations.
- According to the circular rules, steps should be taken to obtain the recommendations of the relevant officials when awarding direct contracts to the farmers' organization.

Kandalama tank bund by the Engineer's Office in-charge of Bowatenna, the contract was awarded only on the recommendation of the Divisional Manager without having the recommendation of the above officers in terms of the above Circular.

## 1.8 Non-compliance with Tax Regulations

Reference of the Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendations
Section 10 (b) of the Value Added Tax (Amendment) Act No. 14 of 2002	Although it is required to register for Value Added Tax under the Act if the total value of goods and services supplies exceeds Rs.12 million over a period of 12 months , and even though the Authority had collected the relevant income of Rs.1,920 Million in the the previous year and Rs.755 Million for the year under review, no action had been taken to register for Value Added Tax .	The land lease rent and royalties (land use charges) receive from natural resources such as land, sand, soil, water which are the main sources of revenue for the Authority are the income from natural resources and because these natural resources are revenue generated in the same way, that is No Manufacturing services to increase value it is informed that such income is not subjected to VAT. But when water which is a natural resource is sold to another institution / person, some value is added to that natural resource. Although the royalty income earns on the sale of water is subjected to VAT, as the annual royalty income of the Authority has not exceeded Rs. 300 Million, it is informed that it is not subjected to VAT as per the Gazette Notification issued by the Government on 06 January 2020 .	Actions should be taken to register for Value Added Tax.

## 02. Financial Review

### 2.1 Financial Results

Operating results for the year under review was a loss of Rs.588,403,000 and the corresponding loss was Rs.267,788,000 as compared to the preceding year. Accordingly, an deterioration in financial results amounting to Rs.320,615,000 was observed. The decrease of the royalty income and decrease of the receipt of government capital contribution had mainly attributed for this deterioration.

## 03. Operating Review

### 3.1 Management Inefficiencies

The following observations are made.

#### Audit Observations

#### Comments of The Management

#### Recommendations

(a) A vehicle which had been received by the Authority in 2017 from the Dam Protection and Water Resources Planning Project had been attached to the Dehiattakandiya Residential Project Management Office had been handed over to a driver in the Medirigiriya Zone for the duties of the Consultant to the State Minister of Mahaweli. The vehicle had met with an accident on 22 December 2019. Although a Full Report for the damage should be submitted within 03 months from the date of the damage occurred according to the Financial Regulations 104 (4), but more than 11 months had elapsed since the accident occurred, a Full Report of the accident had not been submitted. The loss occurred to the vehicle amounting to Rs.6,915,484 had not been recovered from the relevant responsible officials. The financial loss amounting to Rs.575,929 occurred to the Authority due to the misuse of two vehicles between the period of 2010 and 2011 by this officer had not been recovered even by 31 December 2020.

The Internal Audit Division has carried out investigating in respect of this accident. Also, an internal committee appointed by me after the this accident inspected the vehicle and has submitted a Full Report. This vehicle has been received to the Authority by the Dam Safety and Water Resources Planning Project. This vehicle is also included in the list of vehicles sent to the Valuation Department for assessment. As the assessment had not been received from the Valuation Department at present, after receiving , it will be brought to account as a fixed asset. Also, the Huruluwewa Region has been informed by the letter My No. MA / ADM / 10/02/1708 dated and 25 June 2021 to recover the financial loss by 10 installments from July 2021 that had occurred to the Institute.

Actions should be taken to comply with Financial Regulations regarding losses and damages and recover it from the relevant responsible parties.

(b) Even though 43 warehouses owned by the Authority have been used by the Paddy Marketing Board from 2009, any lease rent had not been charged for those warehouses even by 31 December 2020. The Chairman of the Paddy Marketing Board had requested the Director General of the Mahaweli Authority to transfer the ownership of the warehouses to the Paddy Marketing Board as there was a need to repair the warehouses in a standard manner. However, it had failed to transfer these lands or to recover the lease rent even by 31 December 2020.

Relevant information has been forwarded to the Valuation Department to obtain the assessment reports of the warehouse buildings belonging to the Authority as requested by the Paddy Marketing Board to carry out these transferring activities. It is informed that the further actions will be taken after receiving the assessment reports.

Necessary arrangements should be made to use the warehouses efficiently and effectively and the relevant rent should be recovered.

### 3.2 Operating Review

The following observations are made.

#### Audit Observations

#### Comments of The Management

#### Recommendations

(a) Even though a case had been filed to get the possession of five official quarters given to the employees of the Central Engineering Consultancy Bureau belonging to the Digana Main Dams and Reservoir Operations Division to the Authority, the Authority had withdrawn the cases stating that it had been agreed to pay the rent properly. However, the rent had not been charged as agreed from one quarters out of that. Another quarters had destroyed by fire on 25 September 2018 and as a result of the unauthorized occupant had left the residence, it had not agreed to pay the rent. Also, even though the eviction orders were obtained on 19 February 2020 filing of a case in the year 2020 to get back the possession of 6 more official quarters, the Authority had not taken

Since the JSQ 07 Official quarters are bachelor quarters (with single room) for junior staff employees, the 12.5 per cent had not been charged. Accordingly, a reasonable rent on a monthly basis is charged as commensurate with the government valuation. The eviction order had been issued on 19 February 2020, after a lawsuit was filed to acquire the ownership the houses. But, due to the outbreak of the Covid-19 epidemic in the country, further court proceedings (execution of Askisi) had been postponed. In the meantime, our officer had met with the Registrar of Courts several times and tried to set a

The necessary legal actions should be taken to evict occupants who are not entitled to obtain official quarters and arrears of rent and losses and damage to official quarters should be recovered from those responsible parties.



possession of 5 official quarters till December 2020 the date of audit. One of the official quarters on which the eviction order was issued had caught fire on 21 October 2020. The approximate estimate of the damage of the fire was Rs.1,225,875 and the rent due was Rs.205,320. No further actions had been taken to recover this loss by the date of audit.

date for the implementation of the eviction order. The Registrar has informed that the implementation of the further course of actions has been postponed. However, the residents of the houses of 73-A and 221-A, had left before the orders were executed. Accordingly, the possession of 03 houses were received by the date of the audit and their maintenance activities had been commenced by the Authority. The unauthorized resident had left the quarters after destroying the 188-B quarters by fire. The further legal actions are being taken against that official residence which caught fire. Eviction orders have been implemented on 28 December for the remaining two houses. Accordingly, 04 houses have been taken over by the Mahaweli Authority and the court has set a date in April for the execution for other two houses.

- (b) Even though the documents should be maintained to be able to check the contractor's books, check rolls, waiting lists or other documents relating to the workers employed to perform the functions related to this Agreement when recruiting workers for maintenance and service work at the Digana Main Dams and Reservoir Operations Division and the Bowatenna Office of the Engineer that contract as per Section 4.9 of the Contract Agreement, it could not be ascertained the accuracy of those payments as the documents were not duly maintained by the farmer organization representative

The manpower required for maintenance work is employed on a contract basis by a community based organization. According to this labor contract, the workers are provided by that organization for the day-to-day operations of the maintenance division at the request of the maintenance division. Accordingly, information on the training, semi-skilled and unskilled labor required for the daily scheduled maintenance work for each functional engineering office is forwarded to the Maintenance

The Mahaweli Authority should monitor whether the documents required to be maintained by the farmers' organizations are maintained in accordance with the contract agreement and maintain a daily attendance and departure record (with the letterheads of the farmers' organization) of the workers under the supervision of the Mahaweli Authority.

or the authority. Further, the recruiting manpower for the maintenance and service of the Main Dams and Reservoirs Operations Division had been done by a same farmer organization for a long time. The daily attendance and departure of those workers and the amount of work done had not been certified by a supervising officer on duty.

Division of the Main Dams and Reservoir Operations Division. Deployment of workers to the respective engineering offices for maintenance work are being done by that Technical Assistant of the Division and the repair works carried out are supervised by two Engineering Assistants of the Division. Upon completion of the proposed repairs, a written certificate is issued by the relevant parties stating that the repairs had been carried out satisfactorily. All such daily repairs carried out are included in the monthly progress report and will be submitted to the Deputy Director (Civil) Head of Maintenance, Main Dams and Reservoir Operations Division. These contracts are paid in installments on a monthly basis and the Deputy Director (Civil) reviews the relevant monthly progress report and approves the payment. As mentioned in the query, the list of workers sent by the association is maintained by the relevant contract association and only the number of labor units are recorded in the books by our office. The reason for that was the the amendment of the contract agreement that the responsibility for labor rights should be borne by the relevant association because of an issue related to labor rights (EPF payments) on several previous occasions.

(c) Although information had been requested from 10 Zones during the audit in providing the lands on long

About 60 investment project lands in the Mahaweli L Zone, Rambaken Oya,

Land development should be monitored so that the objectives of

term lease basis for investment projects of the Authority by 31 December 2020, only 5 Zones had submitted information in accordance with the prescribed format. As a result, it was unable to audit the overall status of development of lands cleared for investment projects of Authority. In the 05 Zones where information had provided, the extent of land given for investment projects was 5,755 acres and out of that there were 2,121 acres undeveloped, 496 acres being developed and 3,138 acres fully developed. Accordingly, 37 per cent of the total land allocated had not been developed. A lease rent of Rs.68,598,808 had to be received by 31 December 2020 out of 123 investors who had been provided lands in 07 Zones that provided information to the audit.

Moragahakanda Zones have been cleared and the area is about 2600 acres. The Rambakenoya area has been given to 4 investors for about 1250 acres for seasonal cultivation and the development was interrupted due to public protests against their preparation for land cultivation. Accordingly, the transfer of the relevant 1250 acres of land to the 04 investors has been submitted to the Cabinet for approval and it has been informed to clear the project lands based on the environmental recommendation and performance. Accordingly, actions will be taken to cancel all the investment project lands which do not pay lease rent by September. Land development in Zone L could not be developed without the approval of the Environment Authority, the Department of Archeology and the Department of Wildlife. For this purpose, it is necessary to acquire the lands of five investors who have been evicted from the Pansalkanda area and maintain as a place for animals' pass. Accordingly, discussions are being done to provide alternative lands for the 05 plots of land to be acquired at the moment. Around 80 acres have been disposed for 08 investors in the Moragahakanda Zone and out of which 04 plots of land are being used for business activities. Three plots of land have been disposed for tourism projects and the projects have not been started

land allocation can be achieved and undeveloped lands should be re-taking over and used for suitable purposes. Necessary steps should be taken to recover the arrears.

as the infrastructure for the development of those projects has not been completed. Accordingly, the Authority is currently working on infrastructure development by now. Similarly, details of investment projects in B,C, E,H Walawa and Huruluwewa Zones have been submitted.

- (d) Although all preferential leases on state lands require the prior written approval of the Minister under Regulation 21 (1) imposed under the State Land Ordinance, in terms of the Paragraph 199 (3) of the Government Land Ordinance No. 08 of 1947, the Board of Directors had approved the tenant of acres 3,750 of lands in the Rambaken Oya Zone to seven investors without obtaining the prior written approval. Also, environmental impact assessment had not been carried out prior to the handing over the tenant of these lands. Further, applications for these lands had been obtained from the investors referring to the National Food Production Performance Committee without calling for applications in competitive and transparent for these lands. Unless the Minister had ordered in other way, in accordance with paragraph 199 (4) of the Government Land Ordinance No. 08 of 1947, whenever it intends to issue a preferential grant or lease, announcement in the Gazette Notification under Government Land Regulation No. 21 (2) should be made, it had not been so done.
- The Rambaken Oya Zone has been temporarily leased out to four investors for a season with the approval of the National Food Production Performance Committee and the Board of Directors to achieve the imported food crop production targets of about 1250 acres as per government policies. Due to the public protests occurred after leasing out, the development of the relevant land had interrupted. Therefore, a Memorandum was submitted to the Cabinet of Ministers to obtain approval for the lease out these plots of lands and therein, the instructions have been given to be submitted a detailed report to the Cabinet through the Minister to consider on the results obtained from the implementation of the initial cultivation programme, including a environmental assessment of these lands before handing over to the investors. Accordingly, lands have not been given to these 7 investors in the Rambaken Oya area on a long term lease basis. Formalization of land allocation system.
- Measures have been taken to inform all Residential Project Applicants should be selected in a competitive and transparent manner when disposing of lands for commercial purposes and in granting lands on a preferential basis, it should act in accordance with Sections 199 and 206 of the Government Land Ordinance.

Managers and Land Disposal Divisions regarding the clearance of lands in special areas owned by the Authority through the Circular No. 1/2021 of the Secretary to the Ministry of Irrigation regarding the procedure to be followed in the clearance of government lands. Accordingly, necessary steps have been taken by the Mahaweli Authority under the Government Land Ordinance and the Land Development Ordinance to carry out the method of allocating lands in a transparent and proper manner.

### 3.3 Idel or Underutilized Property, Plant and Equipment

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**Audit Observations**  
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**Comments of The Management**  
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**Recommendations**  
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Although the building in Polgolla Reservoir Control Centre constructed by the Dam Safety and Water Resources Planning Project at a cost of Rs.339,584,727 and handed over to the Authority in the year 2019 was a two storied building, due to lack of sufficient staff attached therein, the building had been underutilized.

This center is in operation from June 2018 under the supervision of the Polgolla Engineer-in-charge and under the supervision of an Electrical Engineer and use for flood control coordination, monitoring of all dams and security activities, seminars and holding various meetings. Necessary operational coordination with all reservoir systems to control flooding occurs due to unpredictable heavy rainfall especially during the latter part of each year, thus November and December because of climate change. involvement of engineers through Zoom technology for international conferences organized by the International Commission for Large Dams (ICOLD) under the control of Covid - 19 epidemic control situation since earlier part

Necessary steps should be taken to use of the entire building.

of 2020, current meteorological data, including reservoir water levels and capacity data on equipment installed for dam protection, etc. coordinates with the Office of the Engineer-in charge.

However, although the Central Environmental Authority (CEA) has been repeatedly informed to vacate the adjoining building to allow staff to be attached to this building, due to the failure to release the building, it has been impossible to attach the Digana office staff for this.

### 3.4 Shortcomings in Contract Administration

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 The following observations are made.

<b>Audit Observations</b> -----	<b>Comments of The Management</b> -----	<b>Recommendations</b> -----
(a) Although the Authority had entered into an agreement to repair the Rantambe Engineer- in- charge Office at a cost of Rs.3,386,358, the work had not been completed within the contract period. Even though the contract period had been extended on 08 occasions, the contract had suspended due to non-completion of work. However, the performance guarantee amounting to Rs.169,318 and the advance guarantee amounting to Rs.1,015,907 had not been recovered in respect of the contract. Due to this, legal action had to be taken to recover the Rs.949,015 which had been paid exceeding the work done. The office building could not be used due to the fact that the remaining work had not been estimated and handed over to a new contractor or failure to take appropriate actions.	Actions have been taken to recover the performance guarantee amount of Rs.169,318 related to the contract by informing the Manager, People's Bank in writing. Similarly, the Manager, People's Bank has been notified in writing to recover the advance guarantee pertaining to this contract amounting to Rs.1,015,907. Legal action has also been taken to recover the money from the contractor. Further, actions have been taken to terminate this contract and suspend payments for the portion of works done in the contract. The remaining work is planed to be completed by another contract in 2021 after charging the relevant amount from the contractor.	Steps should be taken to recover overpayments for the works done in excess, and take necessary actions to repair and use the building.

- (b) Even though the letters of acceptance had been sent to the selected contractor on 30 January 2020 for the repair contract of Mahaweli Defense Forces official quarters valued at Rs.2,376,972 and also the work should be commenced within 14 days from that date, it had not been so done accordingly. More than a year elapsed, the Authority had terminated the contract awarding on 17 February 2021. Due to the failure to conduct the repairs, these official quarters had further been deteriorating and becoming unusable.
- The relevant contract award has been cancelled by my letter No DDG/CON/MSO/ DIG/B3 dated 17 February 2021. Out of the amount had to be paid to the SSP Engineers Ltd. from the the final payment of the Contract No. DDG/ CON / MSO / DIG / B / 04 , the relevant bid security charge of Rs. 35,000 has been recovered. The repairs are planned to be carried out in accordance with the proposed provisions for the next year.
- If work does not commence in accordance with the acceptance letter, the relevant awarding should be cancelled and steps should be taken to transfer the relevant repair works to another contractor.
- (c) A contract had been awarded at a cost of Rs.6,990,000 in 2017 for the reconstruction of the Visiting Centre existsiin Kotmale Operational Engineering Office and to remove the old dam model and makea new dam model and the dam model with an estimated value of Rs.2,060,000 had been made with defects and of low quality.The Authority had failed to recover the losses due to failure to obtain a performance guarantee at the time of awarding the contract and non-completion of the work as per the agreement .
- This contract has been categorized in to two main parts as reconstruction and innovation of Visiting Centre and creation of a realistic dam model within the existing space to fit all the features and components of the Kotmale Reservoir to the appropriate scale.The first part of these two parts was successfully completed by the contractor and the relevant amount was paid for it. Although the Divisional Engineer has informed the contractor on several occasions orally and in writing about the defects and low quality of the dam model, there was no any positive response. Accordingly, this defective dam model was rejected and no fee was paid for it. Even though the contractor had been instructed to remove this from the Visiting Centre, since the model is not in a suitable condition for spectators who visits to the Visiting Centre it has not been removed yet. This has been referred to take legal actions.
- Carrying out construction contracts in accordance with contract agreement with the standards and steps should be taken to obtain Performance Security to cover losses incurred for violation of contract agreements.

### 3.5 Human Resources Management

The following observations are made.

Audit Observations	Comments of The Management	Recommendations
(a) Twenty five officers of the Mahaweli Security Forces are employing in other external institutions and the salaries amounting to Rs.6,187,072 which had been paid to those officers had not been reimbursed from those institutions.	At the request of the Ministry of Agriculture and the Ministry of Irrigation, the security forces had been attached to other Ministries and Workplaces. However, although the salaries of those officers are being paid by the Authority, steps have been taken to recover the money paid .	Action should be taken to reimburse the relevant payments.
(b) There was an excess of 15 officers in 4 posts and 77 vacancies in 7 posts in the Mahaweli Defense Force as at 31 December 2020. Further, 11 security guards of the Mahaweli Defense Force had been deployed at the Digana Mahaweli Defense Force Headquarters instead of their security duties.	Although the Mahaweli Defense Force had been an approved number of employees, there is a need for more officers now, in addition to the staff requirement at the time of approval. Likewise, although the post of Engineering Assistant had not been approved for the Mahaweli Defense Force, it had been attached due to the need for an Engineering Assistant for the maintenance of the Division's and Divisional Offices and Quarters and Buildings. Also, although the two posts of Regional Managers had not been included in the number of employees of the Authority approved on 22 August 2011, the two Regional Managers who were working at that time have been kept in the same position as only personal to them. Further although the post of Chef has specifically not been included in the Security Forces, actions have been taken to the preparation of food and beverages for security personnel under the Main Dams and Reservoir Operations Division. The Department of Management Services has instructed not to recruit drivers and two security guards.	The approved number of employees should be revised as required and the relevant officers should be assigned to the approved posts.