

Head 428- State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones was issued to the Accounting Officer on 31 May 2022 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Department in terms of section 11 (2) of the Audit Act was issued to the Accounting Officer on 31 May 2022. The report of the Auditor General will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Canals and common Infrastructure Development in Settlements in Mahaweli Zones as at 31 December 2021, and its financial performance and cash flow 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 (SLAuS). 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 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 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.

As per Sub-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 annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists, 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 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:

- 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 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 and Regulatory Requirements

I express the following matters in accordance with 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 recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Recurrent Expenses

Audit Observation	Comment of the Accounting Officer	Recommendation
A ledger balance of Rs.8,681,984 had existed by the end of the year relating to 02 Objects under Program 01 and 03 Objects under Program 02. The value of combined trial balance amounted to Rs.9,002,658. As such, a difference of Rs. 320,674 was observed in audit.	The difference had resulted in due to mistakes occurred in adding the values of the Vote Ledger.	Action should be taken to show the correct values in accounts.

1.6.2 Statement of Financial Position

Audit Observation	Comment of the Accounting Officer	Recommendation
The activities such as, purchase of fixed assets, entering into contract agreements, and renovation of the office had been done by the State Ministry through the Mahaweli Authority of Sri Lanka in the years 2020 and 2021 without allocating provision. The sum of Rs. 25,094,035 incurred thereon had been given by the Mahaweli Authority of Sri Lanka on the basis of being reimbursed by the State Ministry, and this transaction had not been shown in the accounts of the State Ministry.	The State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones had been established newly in the year 2020. As the Ministry had not possessed any fixed assets, urgent purchases had been made through the Mahaweli Authority of Sri Lanka. Those funds had been requested under budget estimates for the year 2021, but no adequate provision had been made in the wake of capital expenses being limited by the Government. As payments had not been made, those stocks remain under custody of the Mahaweli Authority of Sri Lanka and will be included in the books of the Ministry after making payments with provision received from the Treasury. Due to lack of provision, it is informed that the values can not be shown in the register of liabilities.	Expenses should not be incurred in excess of the limit on provision made through the annual estimate. The relevant liabilities should be brought to accounts.

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A revenue of Rs.1,250,000,000 had been estimated for the year 2021 though, the value of invoices sent to the Ceylon Electricity Board during the year totaled Rs. 1,504,328,099. Had the revenue collection process been properly supervised, a revised estimate should have been prepared in terms of Financial Regulation 85 (2) (b) and presented for approval of the Department of Fiscal Policies. Nevertheless, a revised revenue estimate had not been prepared by the State Ministry for the year 2021.	The water levels depend on the rainfall following climate changes, and the capacity of hydroelectricity that can be generated, also depends thereon. Following heavy rainfall in October and November 2021, the capacity of hydroelectricity generated was higher than the estimates, thus resulting in an increase in the estimated revenue. Considering fluctuations in the estimated revenue, action will be taken in due course to revise the revenue estimates and obtain approval thereon.	Action should be taken to prepare estimates in terms of Financial Regulations.
(b) A revenue of Rs.1,250,000,000 had been estimated for the year 2021 under the Revenue Code, 20.03.08.00 whereas the revenue collected in the year under review, amounted to Rs. 538,063,129. A sum of Rs. 243,731,417 of that, was related to the year 2021 whilst the balance of Rs. 294,331,712 was the amount in arrears relating to the preceding year. As such, the revenue collected in the year under review,	Invoices had been issued in respect of funds receivable from the Ceylon Electricity Board relating to the year. Nevertheless, only a part of the receivables had been settled by the Ceylon Electricity Board whilst it was the norm throughout the preceding period to pay the balance in the ensuing year. Accordingly, a sum of Rs. 243,731,417 had been paid in the year 2021 out of the revenue pertaining to the year 2021 and a sum of Rs.	Action should be taken for the expeditious recovery of receivable revenue.

represented a percentage as low as 19.5 per cent of the estimated revenue. 4,255,148 had been paid in the year 2022. Making payments were delayed owing to financial difficulties faced by the Ceylon Electricity Board.

2.2 Expenditure Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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The provision of Rs.1,900,000 made for 02 Objects under Program No. 01 had been saved in full. Savings ranging from 28 per cent to 97 per cent were observed with respect to 07 Objects, and savings in the range of 31to 84 per cent were also observed with respect to 06 Objects under Program No. 02.	Those savings had mainly been attributable to the reasons such as, Covid-19 pandemic, no modifications whatsoever had been done in the year, non-presence of the approved cadre, and lack of bills to be settled.	Estimates should be prepared accurately before obtaining provision.

2.2.1 Capital Expenses

Audit Observation	Comment of the Accounting Officer	Recommendation
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A provision of Rs.300,000 made for an Object under Program No. 01 and a provision of Rs. 400,000 made for an Object under Program No. 02, had been saved in full. A saving of 65 per cent under an Object relating to Program No. 01 along with a saving ranging from 26 per cent to 80 per cent with respect to 03 Objects under Program No. 02 had been observed.	The reasons such as, improvements had not been done during the year, limitations on duties and training activities due to Covid-19 pandemic, and non-receipt of imprests and bills, had attributed to the savings.	Estimates should be prepared accurately before obtaining provision.

2.3 Incurring Liabilities and Commitments

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) According to the statement of liabilities and commitments (Note iii) as at 31 December 2021, the value of liabilities relating to the payment of bills with respect to 06 offices of the Director of Irrigation, amounted to Rs. 5,598,447. Nevertheless, the same had been shown as Rs.48,247,702 in the financial statements. Furthermore, the release of liabilities relating thereto had been shown as Rs. 286,169 in the financial statements though, the accuracy thereof could not be verified.	The values of bills shown separately in the statement of liabilities and commitments (Note iii) relating to 06 offices of the Director of Irrigation as at 31 December 2021, were correct. Due to a mistake occurred in computing the addition of those values, the value of liabilities had been shown as Rs.48,533,871, and the amount paid had been shown as Rs. 286,169 whilst the balance had been shown as Rs.48,247,702. It is acknowledged that the value of liabilities should be corrected as Rs.5,598,447 and there should be no balance under the value of payment.	Figures should be accurately shown in the accounts.
(b) According to the statement of liabilities and commitments furnished with the financial statements, the value of liabilities for the year 2021 totaled Rs.339,980,921 whilst liabilities valued at Rs.256,864,175 had been released. However, it was observed in audit when examining the accuracy of computations that the value of total liabilities amounted to Rs.345,579,368, liabilities valued at Rs. 264,883 had been released, and the balance of liabilities amounted	Due to a mistake occurred in the totaling process, the value of total liabilities for the year 2021 had been omitted. The value of total liabilities, liabilities paid, and the balance of liabilities should be corrected as Rs.345,579,368, Rs.264,702 and Rs.345,314,666 respectively. The values of liabilities relating to each office of the Director of Irrigation, have been summarized in Note (iii) furnished with the financial statements, and an Annexure for the liabilities under * 428-2-3-8-2506 given at the end	- Do.

Rs.345,314,485. As the Audit had not been provided with documentary evidence to verify the values of liabilities mentioned in Note (iii) of the financial statements relating to the offices of the Director of Irrigation, accuracy of those values could not be verified in audit.

of the register of liabilities, is presented herewith. A note is provided as "Note iii", and the comprehensive register of liabilities relating thereto has been furnished to the Audit along with the financial statements.

- (c) The sum of Rs. 582,892 being the value of water and electricity bills for the months of November and December, 2021, had not been paid. This had not been disclosed in the register of liabilities given in the financial statements of the year 2021 as well.
- Water and electricity bills of the Ministry are reimbursed to the Mahaweli Authority. As the bills for the months of November and December 2021 had not been received prior to the presentation of accounts, they had not been shown in the accounts.
- Necessary information should be collected and the liabilities should be disclosed with the financial statements.

2.4 Issue and Settlement of Advances

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) According to Financial Regulation 371(5) as amended by the Public Finance Circular, No. 01/2020 dated 28 August 2020, a sub-imprest should be settled within a period of 10 days after completion of the intended purpose for which it was given. However, delays ranging from 18 to 298 days were observed in 26 instances in settling the sub-imprests.	Advances had been obtained at the beginning of the year in respect of minor repairs on vehicles, fuel advances and recreational expenses on the basis of reimbursing monthly. The other fuel advances had been given as additional advances on fuel when the officers whom vehicles had been attached to, had done field inspections, and the settlement of such advances had been done by the relevant officers. Furthermore, it is noted to inform the relevant officers to immediately settle	Action should be taken to settle the advances as soon as the completion of intended purpose.

the advances once the intended expenditure is incurred.

- (b) According to the Financial Regulation 371(2)(d), sub-impressts should be given only to the officers of staff grade. Nevertheless, sub-impressts had been given to non-staff officers in 08 instances.
- The Ministry did not have an adequate number of staff officers. As such, advances had been given to the relevant officers by obtaining approval of the Head of the Ministry.
- The Financial Regulations should be followed.

2.5 Certifications of the Accounting Officer

The Chief Accounting Officer / Accounting Officer should have certified on the following matters in terms of provisions of Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been done so.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The Accounting Officer should 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. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that it had been so done.	Effective internal control systems have been put in place among the divisions in view of financial control of the Ministry. As an Internal Audit Unit has not yet been established, this process could not be implemented formally. It is noted to further strengthen the internal system of control in due course.	Provisions of the National Audit Act should be followed.

- (b) It should have been certified by the Chief Accounting Officer and the Accounting Officer that an effective methodology was in place to properly execute internal audits. However, that requirement had not been fulfilled in accordance with the observation under Paragraph 4.1 of the report.
- The necessity for an Internal Audit Unit has been emphasized, and the Ministry of Public Services, Provincial Councils and Local Government has been informed from time to time in that connection. It has been requested in writing that the guidance and assistance of the Chief Internal Auditor of the Ministry of Irrigation be provided for the year 2022.
- Action should be taken to establish an Internal Audit Unit.

2.6 Non-compliance with Laws, Rules, and Regulations

 The following instances of non-compliances with Laws, Rules, and Regulations were observed.

Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Reference to Laws, Rules, and Regulations -----	Non-compliance -----	-----
a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		
(i.) Financial Regulation 104(1) (a), 104 (3) & 104 (4).	Measures had not been taken in terms of the Financial Regulations within the specified duration in respect of the vehicle accident occurred on 25 April 2021.	There were restrictions on the employees reporting for duty following the curfew in the wake of pandemic at the time of accident. As such, board of inquiry could not be appointed on the accident in terms of Financial Regulation 104(1)(a). Accordingly, the relevant reports could not be furnished within the specified time in terms of Financial Regulation 104 (3) and (4). The officers responsible
		Action should be taken in accordance with the Financial Regulations.

- have been instructed to take corrective measures in due course.
- (ii.) Financial Regulation 109 (1) (a). A copy of every Order of Write-Off should be sent to the Auditor General. However, a copy of the order relating to the sum of Rs. 34,429 that had not been included in the indemnity for the accident, had not been furnished to the Auditor General even up to 25 April 2022. Documents on the write-off of loss had been sent to the Director General of the Department of Public Finance on 2022.03.29 with a copy to the Auditor General in terms of Financial Regulation 109 (1) (b). - Do.
- (iii.) Financial Regulation 128(2) (c). Half-yearly reports on outstanding revenue should be forwarded by the Revenue Accounting Officers to the Auditor General with a copy to the Director General of the Department of Fiscal Policies within the first month after lapse of the specified period. It is acknowledged that the half-yearly reports on outstanding revenue had not been sent to the Auditor General. Action will be taken to send them in due course. - Do.
- (iv.) Financial Regulation 135. Financial authority had not been delegated in respect of assessment, collection and acquisition of revenue relating to revenue accounts. This Secretary to the Ministry had been appointed as the Revenue Accounting Officer with effect from 2021.04.27. It is acknowledged that financial authority had not been delegated during the year 2021, but it is informed that corrective measures will be taken by delegating authority in the ensuing year. - Do.

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| (v.) | Financial Regulation 756. | Annual survey on stores had not been conducted. | The annual survey has already been commenced, and it is expected to conclude the survey as soon as possible. | - Do. |
| (vi.) | Financial Regulation 1642. | Either the officers using official vehicles or the drivers of such vehicles should report the nearest Police station on the accidents. Nevertheless, the Police had not been reported on vehicle accidents. | The drivers have been informed in wiring in that connection, and it is noted to apprise them again to avert similar situations in due course. | - Do. |
| b) Fiscal Policies | | | | |
| Circular, No. 01/2015 dated 20 June 2015. | | | | |
| (i.) | Section (a) of Paragraph 04. | Reports should be properly maintained by including information such as, value of revenue to be recovered, collected revenue and outstanding revenue, if any. However, the Ministry had not taken action to maintain reports in the order of Revenue Code. | The Ministry had appointed the Revenue Accounting Officer on 2021.04.07. As such, it is acknowledged that proper action could not be taken in that connection. However, reports will be properly maintained in due course. | Action should be taken in accordance with the provisions of Circulars. |
| (ii.) | Section (b) of Paragraph 04. | It is the responsibility of the Revenue Accounting Officer to take action to recover the outstanding revenue, and avert the accumulation of outstanding revenue. However, it had not been so done. | The said mistake is acknowledged. Action will be taken to avoid the recurrence of such mistakes. | - Do. |
| (iii.) | Paragraph 07. | All the Revenue Accounting Officers should send their half-yearly reports to the | - Do. | - Do. |

Director General of the Department of Fiscal Policies within 15 days from the lapse of specified period. Nevertheless, the State Ministry had not prepared the half-yearly revenue reports for the year 2021.

- c) Letter, No. SA/MAA/02/01/01 of the Director General of State Accounts dated 12 January 2022. Amendments had been made under the basis of being shown in the financial statements though, it had not been so done. The relevant formats should be used in accordance with Guidelines of the letter issued by the Director General of State Accounts. The comparable information has been shown under the column for the information readjusted in the year 2020. The provisions should be followed.

3. Operating Review

3.1 Performance

3.1.1 Planning

Audit Observation	Comment of the Accounting Officer	Recommendation
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According to Paragraph 03 of the Public Finance Circular, No. 02/2020 dated 21 August 2020, the annual Action Plan for the ensuing year should be prepared, presented to the Chief Accounting Officer and approved prior to 15 December of the current year. Nevertheless, the Action Plan of the State Ministry for the year 2021 had been presented for approval of the Chief	In the wake of Covid-19 pandemic, the Action Plan of the State Ministry of Mahaweli for the year 2021 had been presented to the Chief Accounting Officer and obtained approval on 2021. 03.15. Furthermore, the Action Plan of this Ministry had been revised due to continuation of the pandemic in the year 2021 and the financial crisis of the country. The Action Plan so	Action should be taken in accordance with provision of the Circular.

Accounting Officer on 15 November 2021. revised, had been presented to the Chief Accounting Officer on 2021. 11.15 and approval had been obtained thereon.

3.2 Management of Assets

Audit Observation	Comment of the Accounting Officer	Recommendation
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According to Section 08 of Guideline 06 issued by the Department of State Accounts with respect to Public Finance Circular, No. 02/2020, the non-financial assets, if any, should be properly recognized and brought to accounts under the value of the cost or the assessment. However, 05 vehicles received from the Ministry of Mahaweli on 18 December 2020 and 22 December 2020 had not been brought to accounts even by April 2022.	As the Ministry had been replaced by 2020.12.22, the vehicles remained with the Ministry of Mahaweli Development and Environment had been taken under custody of the Ministry of Irrigation. Nine vehicles of this Ministry that had remained under custody of the Ministry of Irrigation, were again handed over to the State Ministry of Mahaweli itself. As the vehicles so given had been registered with this Ministry, it is informed that such vehicles had not been reacquired.	Action should be taken in accordance with provisions of Circular.

4. Good Governance

4.1 Internal Audit

Audit Observation	Comment of the Accounting Officer	Recommendation
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The Chief Accounting Officer of a Ministry should appoint an internal auditor for that Ministry in terms of Section 40(1) of the National Audit Act, No. 19 of 2018. Nevertheless, an internal auditor had not been appointed to the State Ministry even by 31 December 2021.	A post of 111/11 in the Sri Lanka Accountants' Service was included in the approved cadre of this Ministry, and that post remained vacant. The Ministry of Public Services, Provincial Councils and Local Government had been informed several times in writing in that connection. A letter, under signature of the Secretary to the Ministry, had	Action should be taken in accordance with the National Audit Act.

been sent on 2021.10.14 as well requesting to appoint an internal auditor

4.2 Audit and Management Committee

Audit Observation	Comment of the Accounting Officer	Recommendation
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According to Section 41 of the National Audit Act, No. 19 of 2018, the relevant Chief Accounting Officer should appoint an Audit and Management Committee to assist him in respect of every auditee entity. Nevertheless, an Audit and Management Committee had not been appointed for the State Ministry even by 31 December 2021.	As an Internal Auditor has not been appointed for this Ministry an Audit and Management Committee has not been appointed to assist the Chief Accounting Officer. It has been informed in writing that an Audit and Management Committee would be appointed as soon as an Internal Auditor is appointed and assistance of the Chief Internal Auditor of the Ministry of Irrigation be provided for meetings of the Management Committee being held quarterly.	Action should be taken in accordance with the National Audit Act.

5. Human Resource Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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Five posts in the senior management, 11 posts in the secondary level, and 06 posts in the primary level, remained vacant.	Secretary to the Ministry of Public Services, Provincial Councils and Local Government has been informed to fill the vacancies.	Considering the service requirements, action should be taken to maintain the cadre approved by the Department of Management Services.