

Head 429- State Ministry of Tanks, Reservoirs and Irrigation Development related to Rural Paddy Fields

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the State Ministry of Tanks, Reservoirs and Irrigation Development related to Rural Paddy Fields 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 Tanks, Reservoirs and Irrigation Development related to Rural Paddy Fields was issued to the Accounting Officer on 25 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 Ministry in terms of section 11 (2) of the Audit Act was issued to the Accounting Officer on 06 October 2022. This report 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 1.5 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Tanks, Reservoirs and Irrigation Development related to Rural Paddy Fields 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 -----
<p>Non-financial assets such as, reservoirs, tanks and dams should be recognized and brought to accounts under the Code 61414 in accordance with instructions given by the Department of State Accounts relating to accounting for fixed assets. Nevertheless, properties developed in the year 2021 at an expenditure of Rs. 2,568,196,192, had not been specifically recognized and brought to accounts under non-financial assets. Of the said expenditure, only a sum of Rs. 375,949,842 had directly been incurred by the Ministry whereas the balance had been spent under the provision released to other Departments and brought to accounts. When such provision had been released, instructions had not been given that the assets being built be recognized as non-financial</p>	<p>Provision amounting to Rs. 3,000 million had been made under “Wari Saubhagya” programme in the year 2021 for the Head of Expenditure, 429-2-3-2-2506 relating to the development of rural tanks, reservoirs and infrastructure, but the actual expenditure amounted to Rs. 2,568,196,192. The assets management module of the CIGAS Programme introduced by the Department of State Accounts to account for fixed assets is capable of accounting only for expenses under the Heads of Expenditure 2101-2106 relating to the acquisition of capital assets, and instructions were given that in case of assets acquired under the other capital Heads of Expenditure, the values thereof be capitalized as opening balances. The said infrastructure development had been done under the Head 2506 involving tanks, reservoirs and dams. As such, it is not suitable for that expenditure to be brought to accounts under non-financial assets of this Ministry. Furthermore, all the tanks and reservoirs in the rural areas belonged</p>	<p>The non-financial assets should be brought to accounts in accordance with provisions of the Circular dated 28 June 2017 issued by the Department of State Accounts relating to accounting for non-financial assets. As for the issue of provision for transactions between Accounting Officers under the capital Object, specific instructions should be issued to account for the non-financial assets either acquired or improved by utilizing such provision, and in order to verify the compliance therewith, the system of internal control should be reviewed thus introducing necessary methods of control.</p>

assets of the relevant institutions. Accordingly, those assets should have been fully disclosed in the accounts of the Ministry.

to the Department of Irrigation, Department of Agrarian Development, and Provincial Department of Irrigation. As such, the accounting frameworks currently being used, have no provisions to account for them as assets of this Ministry.

1.6.2 Property, Plant and Equipment

Audit Observation	Comment of the Accounting Officer	Recommendation
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Four vehicles costing Rs. 62,490,000 belonging to the State Ministry had been registered by the end of the year under review, and information relating to vehicles valued at Rs. 27,990,000 therefrom had not been shown in the statement of non-financial assets.	The two Toyota Hilux Double Cabs bearing numbers PK 7066 and PK 7067 mentioned in the audit query, had been provided by the Department of Budget on 2021.12.22 under financial lease. The Bank of Ceylon, Ratmalana branch was the financier thereof and remains the absolute owner of those vehicles until the installments for the 05 ensuing years are paid in full.	Financial statements should be prepared by ensuing that sufficient information has been disclosed in accordance with Generally Accepted Accounting Principles.

2. Financial Review

2.1 Imprest Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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An imprest of Rs. 743,413,000 had been requested in respect of activities scheduled to be carried out by the State Ministry during the year under review, but only Rs. 463,011,000 had been released by the Treasury, thus 37.7 per cent of the imprest requested had not been received.	Agreed.	Controlling the budget should be done with forecasts made under minimum variations.

2.2 Expenditure Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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As estimates had been prepared without identifying the requirements and activities had not been executed as scheduled, 39 per cent or Rs. 23,547,689 had saved out of the net provision totaling Rs. 81,283,000 made for 15 Objects. The saving under each Object ranged between 20 per cent and 92 per cent.	Plans were made to save provision under certain Objects in terms of instructions given in Cabinet Memorandum, No. 21/1596/304/134 relating to the review of Government expenditure for the year 2021. Savings occurred in Objects on personnel emoluments due to vacancies in the staff, and due to restrictions on overtime, field duties and training of the officers owing to the Corona pandemic, savings also occurred under the Objects relating to overtime, travel expenses, and training. Furthermore, action had been taken in terms of the Circular restricting Government expenditure, to limit the purchase of capital assets scheduled under the Procurement Plan for the year 2021. As such, savings occurred under those Objects as well.	Budget should be prepared by minimizing variations as far as possible.

2.3 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) No expenditure or commitment shall be incurred by any department for work, service or supply, unless financial provision exists therefor in the Annual Estimates in terms of Financial Regulation 94(1). Nevertheless, liabilities totaling Rs. 62,127,413 had been incurred in the year under review in excess of the	It was stated in Financial Regulation 94(1) that no commitment should be incurred in excess of provision made under annual estimates. However, in terms of Financial Regulation 94(3), when a total cost estimate appears in the annual estimate for a scheme or project, and the Head of the Department is satisfied	In order to verify that all the balances payable by the end of the year are correctly recognized and brought to accounts as liabilities, the system of internal control and reporting should be reviewed thus making necessary changes therein.

provision approved for other capital expenses.

that such scheme or project cannot be undertaken or carried out according to the programme of work prepared for it, without incurring a deferred Liability, he may, notwithstanding the provisions of Financial Regulation 94(1), personally authorize the incurring of such commitment, provided that it does not cause an excess on the approved Total Cost Estimate.

Accordingly, it had been planned under the “Wari Saubhagya” Programme to grant provision amounting to Rs. 11,000 million through the interim budget for developing 5000 tanks and reservoirs in the rural areas under the Head of Expenditure, 429-2-3-2-2506. Provision amounting to Rs. 3000 million had been made therefrom, and works had been commenced on 1400 reservoirs by September 2021.

- (b) Instructions had been given in the Public Finance Circular, No. 255/2017 that, in order for the information system of the Department of State Accounts to be updated daily with the values of liabilities and commitments as at 31 December 2021, details on liabilities and commitments incurred with respect to every unit of expenditure along with the release of such liabilities, be uploaded to the relevant website. According to the
- When queried the relevant institutions, it was revealed that erroneous data had been uploaded into the New CIGAS Programme. Instructions had been given that liabilities and commitments as at 2021.12.31 be brought to the final accounts through the New CIGAS Programme under the provision given to other Departments through “Wari Saubhagya” Programme, thus obtaining liabilities separately through
- Commitments and liabilities should be maintained in accordance with the Public Finance Circular, No. 255/2017.

data of the CIGAS schedules had been delayed Programme relating to the unlike in the preceding year 2021, the values of years. Due to this reason, the commitments and liabilities Department of Irrigation, amounted to and the Department of Rs.1,186,165,809 and Agrarian Development, the Rs. 893,572,086 respectively accounting processes of whereas those values which had been done amounted to through a number of sub-Rs.645,807,163 and offices, could not verify in Rs.519,517,145 respectively writing the liabilities and as per Note (iii) of the commitments uploaded by financial statements. As each institution. As such, differences in commitments and liabilities amounting to Rs.540,358,646 and Rs.374,054,941 respectively were observed.

2.4 Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with provisions of Laws, Rules and Regulations observed in audit test checks are analyzed below.

Observation ----- Reference to Laws, Rules, and Regulations -----	Non-compliance	Comment of the Management of the Accounting Officer -----	Recommendation -----
Financial Regulation 146 of the Democratic Socialist Republic of Sri Lanka.	Where one Accounting Officer acts on behalf of another Accounting Officer for incurring expenditure against the latter's vote, plan and progress of the work and the expenditure thereon should be under scrutiny whilst ascertaining that the Agent does not	Project proposals had been obtained from each of the Departments when preparing the work plan for the year 2021, and such proposals had been included in the work plan after being reviewed by the Ministry. According to the work plan prepared for the year 2021, monthly progress reports had been obtained from each Department thus preparing summary reports on the progress thereof.	Formats should be introduced to report on progress covering the matters mentioned in Financial Regulation 146, and follow-up action should be taken accordingly.

deviate from a given plan or programme, or exceed the Allocation or the limits of delegation. Nevertheless, it had not been so done with respect to the provision released to other Accounting Officers under Item No. 2506 of Expenditure.

Furthermore, the Ministry also obtained biweekly reports on the physical progress of the activities included in the work plan, and based thereon, meetings were conducted almost monthly to review the progress thereof. Instructions were given in those meeting to each Department that limits on expenses be maintained by considering the provision granted and the savings thereof. Furthermore, when releasing provision to other Departments in respect of the work plan, instructions were given in writing that expenses be incurred within the limits imposed on provision so released. All the decisions and instructions relating to the management of projects were provided for all the parties promptly through Minutes of the progress review meetings, and those Minutes have been filed in this Division.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) It had been scheduled to renovate 5000 tanks and reservoirs within the interim budget for the period 2021-2023 under the "Wari Saubhagya" Programme. Having incurred a sum of	In compliance with the Programme, it was proposed that the work of renovating 5000 tanks/reservoirs/dams should be directly contributed through the Ministry of Irrigation, State	All the institutions implementing the Programme should maintain an up-to-date report on the progress of the Programme. Criteria should be prepared on

Rs. 2,568,196,192 in the year 2021, only 1400 tanks and reservoirs had been renovated in all the 25 districts.

Ministry of Irrigation and the State Ministry of Mahaweli.

Provision amounting to Rs. 3,000 million had been granted to the State Ministry of Irrigation for the year 2021 through the interim budget whilst provision had separately been granted to the Ministry of Irrigation and State Ministry of Mahaweli for the said renovation activities under the "Wari Saubhagya" Programme. Accordingly, a target for renovating 1000 tanks/reservoirs/dams had been set for the State Ministry of Irrigation for the year 2021, and having exceeded that target, 1300 tanks/reservoirs/dams had been renovated.

the following matters relating to those projects.

- I. Methodology followed in identifying and prioritizing the tanks/reservoirs for renovation.
- II. Methodology to determine the activities that can be executed within the limits of provision.
- III. Control and disposal of silt and soil being removed during the expansion and deepening of tanks/reservoirs.
- IV. Criteria for determining the seasons in which the tanks be renovated so that agricultural activities are not affected.
- V. Criteria to be compliant with laws and rules relating to the environment.

(b) The following observations are made on the pilot project for the removal of silt from small and medium sized tanks under the "Wari Saubhagya" Programme.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(i) The contents removed from the bottom of tanks should be measured and fees should be charged accordingly. But,	Measuring the constituents of the contents through soil inspection is costly, and it would not be possible to	The contents removed during the cleaning of bottom of the tanks should be measured,

- action had not been taken to determine the fees as required by the Government.
- decrease expenditure on the Government. As such, it is impractical to determine a fee by classifying silt removed from tanks in rural areas. All the parties agreed for the payment of Rs. 1,000 – Rs. 1,750 per 03 cubes. Consent was given to decide on the fee per cube after evaluating the situation following the pilot project.
- and a fee mentioned in the Gazette Extraordinary, No. 1600/18 dated 06 May 2009, or any other fee not less than that should be charged.
- (ii) Although no conditions on subcontracting had been included in the agreement entered into with the development partners for the removal of silt and soil of the tanks, subcontracts had been given.
- The State Ministry expects that the removal of silt would be done by the development entrepreneurs independently in accordance with the Guidelines prepared by the State Ministry. As for the removal of silt in the future, it is also expected by the State Ministry that the contract between the development partners and subcontractors would be improved through the lessons learnt from the pilot project. Despite not being mentioned on subcontractors in the tripartite agreement, subcontracting is a generally accepted norm.
- The State Ministry had no objection on the selected development partners awarding subcontracts, and the State Ministry liaised only with the development partners.
- Clearance of the Attorney General's Department should be obtained on the agreements entered into with the external parties.
- (iii) It was reported that 56,735 cubes of silt had been removed from 37 tanks by private contractors deployed by development partners. As action had not been taken by the State Ministry to impose the minimum charge of Rs.
- The bidders had furnished prices ranging from Rs. 333.30 to Rs. 650.00 per cube. As such, the revenue expected for the Government was Rs. 20,620,028.20. It was the responsibility of the relevant development
- The sum receivable in total for the silt being removed during the year, should be brought to accounts, and the revenue earned therefrom should be credited to the

- 560 for the silt so removed, the sum totaling Rs.24,057,493 relating to the removal of silt had not been credited to the Government revenue.
- (iv) The development partners had entered into agreements with private contractors without having consent of the State Ministry or the Institution in charge of the tanks. Some of the conditions mentioned therein had paved way for improper mining, thus causing a threat to the safety and existence of the tank as well.
- (v) As per the agreements entered into in an informal manner with respect to the removal of silt by the private contractors as mentioned above, a sum of Rs.13,573,634 remained recoverable from the National Equipment and Machinery Organization (NEMO), State Development & Construction Corporation (SD&CC), and Central Engineering Consultancy Bureau (CECB). Nevertheless, that sum could not be recovered.
- (vi) Mining had been done at places in which sand had deposited on either sides of the canal providing water for the *Era Wewa* and *Labunoruwa* tanks where field inspections were carried out. With sand
- partner to pay the relevant amount to the Department of Agrarian Development as per the tripartite agreement whilst the Department of Agrarian Development was responsible for the recovery of remittance receivable to the Government.
- The State Ministry expects that the removal of silt is done by the development partners independently in accordance with the guidelines issued by the State Ministry. However, the State Ministry does not object the development partners giving subcontractors.
- The State Ministry has taken timely action by informing the development partners that the balance payments should be remitted from the subcontractors and the dues should be settled to the Department of Agrarian Development.
- Technical recommendations have specifically been issued by the State Ministry in regard to the removal of silt from tanks in rural areas during the pilot project. Removal of silt from those tanks had been done by the
- Government revenue.
- Legal action should be taken against the subcontractors who had done mining causing a threat to the safety and existence of the tanks.
- Action should be taken by the National Equipment and Machinery Organization (NEMO), State Development & Construction Corporation (SD&CC), and Central Engineering Consultancy Bureau (CECB) to recover monies from the private contractors for the removal of silt.
- Action should be taken to remove silt from tanks in accordance with technical recommendations.

- deposits becoming surfaced, sand mining had been done irrespective of technical recommendations. The mining had become uncontrollable and the contractors had defied instructions of the irrigation officers and conditions of the Agreement.
- (vii) Having violated the conditions of the Agreement, the contractors had implemented the programme in a manner that sand had been extracted through mining whilst the remnants had again been deposited at the bottom of the tanks. Hence, the objective of expanding tanks could not be achieved as the retention of water in the tanks had been adversely affected due to the fact that only the layer of sand had been removed. Thus, the objective of implementing the programme could not be achieved as well.
- (viii) Silt should have been removed not exceeding a depth of 02 feet though, silt and soil had been removed to a depth of 04 feet at the *Labunoruwa* tank. Remnants after extracting sand had been dumped at the reserved area of the Labunoruwa tank, and ditches had been dug from the tank to the said area for obtaining water to be used in extracting sand; hence, obtaining water for cultivation and using the tank for other activities had been hampered.
- development partners under supervision of the Department of Irrigation.
- The pilot project had been implemented to mainly identify the favorable and unfavorable impact of the process to expeditiously remove silt. The Guidelines and Agreements had been prepared after conducting discussions with the Department of Irrigation, Department of Agrarian Development, and the development partners by reviewing the pilot project.
- Action should be taken in accordance with conditions of the Agreement for the removal of silt deposited in the tanks.
- After removal of silt, the tank should be prepared for normal use.
- It is the expectation of the State Ministry that the relevant development partners, being the entrepreneurs of the Government, should have ensured quality in carrying out the tasks under supervision of the Department of Irrigation. The unfavorable impact so identified, will be corrected in due course by the relevant development partners with technical involvement of the Department of Irrigation.

4. Human Resource Management

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
<p>The approved cadre of the Ministry for the year under review was 70 whereas the actual cadre was 37. Accordingly, there were 33 vacancies. Although vacancies existed in 09 posts of the senior level, 03 posts in the tertiary level, 12 posts in the secondary level, and 09 posts in the primary level, action had not been taken to make appointments to those vacant posts.</p>	<p>Although requests had been made from time to time to the Ministry of Public Services, Provincial Councils and Local Government relating to the appointment of approved cadre, no appointments have been made thus far.</p>	<p>Action should be taken to fill the vacancies in essential posts. The other posts should be suppressed.</p>