

## **Dam Safety and Water Resources Planning Project - 2015**

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The audit of financial statements of the Dam Safety and Water Resources Planning (DSWRPP) Project for the year ended 31 December 2015 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 Article 4:09(b) of Loan Agreement No Q5200 of 16 March 2006, the Grant Agreement No TF056901 of 01 August 2006 and the Financing Agreement No CE4406 of 28 May 2008 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan and Grant Agreements of the Project, then Ministry of Irrigation and Water Resources Management, presently the Ministry of Mahaweli Development and Environment is the Executing Agency and the Sri Lanka Mahaweli Authority, Department of Irrigation, Ceylon Electricity Board, National Water Supply and Drainage Board, Water Resources Board and the Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are to establish long term sustainable arrangement for the operation and maintenance of large dams and improve water resources planning. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 72.21 million equivalent to Rs 8,217.29 million and out of that US\$ 65.88 million equivalent to Rs 7,494.07 million was agreed to be provided by the International Development Association. The Project commenced its activities on 30 June 2008 and scheduled to be completed by 30 June 2013. However, according to the decision of the Cabinet of Ministers on 07 July 2011, the Project period had been extended up to 30 June 2015 with the concurrence of the International Development Association. However, the Project had prepared and presented the financial statements for the year ended to 31 December 2015.

### **1.3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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

Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan and Grant etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan and Grant Agreements.
- (f) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements.
- (g) Whether the funds, materials and equipments supplied under the Loan and Grant had been utilized for the purposes of the Project.
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (i) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (j) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the financial covenants laid down in the Loan and Grant Agreements had been complied with.

**1.5 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

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**2.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan and Grant Agreements,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

**2.2 Comments on Financial Statements**

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**2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Eventhough the period of the Project had been completed on 30 June 2015, the property, plant and equipment procured by the Project at a cost of Rs.1,139.69 million remained at 07 Implementing Agencies had been shown in the statement of the financial position as at 31 December 2015, as the assets of the Project.

- (b) The cost of meteorological equipment, elevators and bulldozers procured at a cost of Rs 399.70 million during the period of the Project under the Component 01 and 02 of the Project had been accounted as operational cost.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Grant /Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	65.88	7,494.07	835.00	6.07	805.15	62.20	7,957.58
GOSL	6.33	723.22	120.00	0.28	36.70	7.95	1,018.22
	<b>72.21</b>	<b>8,217.29</b>	<b>955.00</b>	<b>6.35</b>	<b>841.85</b>	<b>70.15</b>	<b>8,975.80</b>

#### 3.2 Physical Progress

##### (a) Component 01 - Dam Safety and Operational Efficiency Improvement

The following observations are made.

- (i) Even though the period of the Project had been extended by 02 years up to June 2015, the remedial works of 27 dams, out of 32 dams had been completed with delays ranging from 02 months to 29 months. It was observed that the costs over run aggregating Rs 333.05 million had to be incurred on remedial works of 11 dams, due to delays in completion of works. Further, savings of costs aggregating Rs 228.41 million on remedial works of other 12 dams had also been reported.
- (ii) The remedial works of the dams of the tanks of Tissa Wewa, Nachchaduwa Wewa and Nuwara Wewa commenced in 2011 at an estimated cost of Rs. 475.7 million had been terminated in 2015, due to poor performance of the contractors. A sum of Rs. 278.19 million thereon had been incurred at the time of termination and the balance remedial works had been handed over to the Department of Irrigation. Further, the performance bonds of 02 contracts only had been encashed by the Project.

- (iii) As per Schedule 01 of the Section 01 (o) of the Financial Agreement, a sum Rs. 52.47 million had been allocated to obtain recommendations to solve the problems prevailed in dams of the tanks of Senanayake Samudraya, Samanala Wewa and Victoria through detailed investigations. According to the progress reports of the Project, those studies had not been completed even at the end of the period of the Project.
  - (iv) It was observed that 09 activities to be carried out at an estimated cost of Rs. 2,179 million including the works such as painting and replacement of the gates of the tanks of Randenigala, Rantambe, Rajanganaya , Dabulu Oya and Kandalama, installation of Data Acquisition and Display System, Earthquake Monitoring and Early Warning System, remedial works of Victoria Dam and Polgolla Tunnel, procurement of Sluice Barrel Inspection Instruments and conducting pre-feasibility studies on implementation of 03 water utilization plans had not been commenced even at the end of the period of the Project. According to the information received, the above mentioned works are expected to carry out under the arrangements made for additional financing of the Dam Safety and Water Resources Planning Project.
  - (v) The Project had offered 02 contracts valued at Rs 99.08 million to a public Corporation on civil works and electric works of the dam of Castlereigh Reservoir within 06 months, which was managed by the Ceylon Electricity Board. Even though it was expected to be completed in 2013, such contracts had been completed only on 31 December 2015 excluding the installing the valve of bottom outlet for the Dam. It was expected to award a new contract under the additional financing arrangement of the Project for the balance works.
  - (vi) As per the schedule 01 of the Section 01(g) of the Financing Agreement, it was required to prepare the “Development of Operation and Maintenance Manual and Operating Procedures” and Emergency Action Plans for 15 dams. However, such plans had been prepared only for 08 dams, as at 30 June 2015.
  - (vii) As per the Section 01(J) of the Financing Agreement, action should be taken to amend the provisions of Sri Lanka Disaster Management Act, No.13 of 2005 for dam safety purposes. However, actions thereon had not been taken during the period of the Project.
  - (viii) The summary report on dam parameters, nature of the works done and major issues identified on remedial works of dams which completed as at 31 December 2015 to be submitted by the Project before 31 March 2016 had not been submitted.
- (b) **Component 2 - Modernization and Upgrading of Hydro Meteorological Information System**
- Even though an allocation of Rs 628.94 million had been made to establish 122 stations for collection of data for Hydro-Meteorological Information System, only 70 stations had been established and a sum of Rs 813.57 million had been spent thereon as at 30 June 2015. Further, it was proposed to establish other stations under the allocations made for additional financial arrangements for the Project.

(c) **Component 3 - Multi-Sector Water Resources Planning**

An allocation of Rs 742.75 million had been made for the implementation of National Water Utilization Plan, Updated Mahaweli Water Resources Plan and Mundeni Aru River Basin Plan under Multi Sectoral Water Resources Planning Programme and a sum of Rs. 516.84 million had been spent thereon as at 31 December 2015. Out of that a sum of Rs 478.69 million had been spent for consultancy services for planning purposes, exceeding the allocation made thereon by Rs.49.21 million. However, the approval of the Cabinet of Ministers for the respective plans had not been obtained even as at 30 June 2016.

**3.3 Contract Administration**

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The following observations are made.

- (a) It was observed that a second lowest bid had been selected by the Project on bids called to procure 05 Motor Graders in 2014, even though the supplier had not possessed experience to supply such equipment, as required by the Letter of Expression. Further, it was observed that the equipments were not complied with several technical specifications. The selected supplier had been paid a sum of Rs 5.87 million more than the price which the lowest bidder called.
- (b) The contract for the renovation of the dam of Nalanda tank had been offered in May 2013 at a cost of Rs 392.99 million, even though the estimated cost for such works amounted to Rs. 267.90 million. It was observed that a sum of Rs 60 million had been included in the bid presented by the contractor to provide facilities for contractors for 24 months and only a sum of Rs 2.40 million allocated in the Bill of Quantities for that purpose. It was further observed that the cost of the contract had been increased subsequently from Rs.392.94 million to Rs. 611.30 million by 55 per cent through 49 variation orders. According to the information made available, out of the total cost of the works, a sum of Rs 407.05 million only had been charged to this Project and the balance sum of Rs 204.25 million was expected to be charged under the additional financing arrangement of the Project.

**3.4 Matters in Contentious Nature**

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The following observations are made.

- (a) According to the progress reports of the Project, the remedial works of 15 dams had been completed and final payments had also been settled as at 30 June 2015. However, according to the financial statements of Project as at 31 December 2015, the final payments and retention monies of such works had not been released.
- (a) According to the paragraph 01(n) of the Financing Agreement, a research should be carried out to recognize the needs of remedial works of the tunnels of Polgolla and New Laxapana tanks. According to the accepted engineering practices, such researches should be carried out within 20-30 years after the construction of the tunnels. However, the required research on Polgolla tunnel had not been carried out even after lapse of 28 years as at 31 December 2015. According to the explanations made at the review meetings, the Line Ministry had issued instructions to avoid this activity, due to inconvenience occurred to the general public on closure of the dam for research purposes. However, it was observed that there was no proper plan for the research and possibility of occurring damages to the tunnel could not be ruled out in audit.