

Mahaweli Water Security Investment Programme –Tranche 1 Project - 2015

The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 1 Project for the first accounting period from 17 September 2015 to 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 4.06 (a) of Loan Agreement No. 3267 – (SRI) and Article 4.03 (a) of Loan Agreement No 3268 (SF) dated 17 September 2015 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry Mahaweli Development and Environment is the Executing Agency and the Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agencies of the Project. The objective of the Project is to secure access to water resources for agricultural and drinking purposes in Project area. As per the Loan Agreements, the estimated total cost of the Project US\$ 190 million equivalent to Rs 26,720.80 million and out of that US\$ 150 million equivalent to Rs 21,095.36 million was agreed to be provided by the Asian Development Bank. The Project commenced its activities in June 2015 and scheduled to be completed by December 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards 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

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 Loans, etc.
- (d) Whether the initial deposit, withdrawals from and the 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) 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 Agreements.
- (f) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (g) Whether the funds, materials and equipments supplied under the Loans 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 Sri Lanka Accounting Standards.
- (j) Whether the financial covenants laid down in the Loan Agreements had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the first accounting period 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 Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposit, withdrawals from and the 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.
- (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 Agreements,
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

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 up to 31 December 2015 are shown below.

| Source | Amount agreed for financing in the Loan Agreement | | Allocation made in the Budget Estimate for the year under review | Funds utilized as at 31 December 2015 | |
|----------------|--|------------------|---|--|----------------|
| | US\$ million | Rs. million | Rs. million | US\$ million | Rs. million |
| ADB | | | | | |
| - Loan No 3267 | 76 | 10,688.32 | 63.45 | - | - |
| - Loan No 3268 | 74 | 10,407.04 | 400.00 | 2.3 | 332.50 |
| GOSL | 40 | 5,625.44 | 75.00 | 0.5 | 71.54 |
| | <u>190</u> | <u>26,720.80</u> | <u>538.45</u> | <u>2.8</u> | <u>404.04</u> |

3.2 Physical Progress

The following observations are made.

- (a) According to the Action Plan, a sum of Rs. 561 million had been allocated to carry out field works, procurement of equipments for operations and maintenance purposes and recruit expert panel and other special assistance for the Project. However, those activities had not been implemented even as at 31 December 2015.
- (b) The overall physical progress of the activities of Project as at 31 December 2015 was remained as 0.3 per cent eventhough it was expected to achieve physical progress of 02 per cent as at that date.

3.3 Extraneous Expenses

It was observed that a sum of Rs. 1.5 million had been spent on procurement of air conditioners and other equipments for the building constructed for the use of Project Operating Unit of the Line Ministry had been charged as a cost of the Project.

3.4 Human Resources Management

According to the Facility Administration Manual, the staff of the Project Monitoring Unit should be comprised with 143 cadre positions. However, according to the Letter dated 27 July 2015 of the Department of Management Services 158 cadre positions had been approved. Out of those, only 30 officers including Project Directors, Project Accountants and Engineers had only been recruited as at 31 December 2015.