

## **Climate Resilience Improvement Project - 2017**

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The audit of financial statements of the Climate Resilience Improvement Project for the year ended 31 December 2017 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 Section 4.09(b) of the General Conditions for Credits and Grants of International Development Association and in Article I of the Financing Agreement No. 5417-LK dated 10 July 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

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

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According to the Financing Agreement of the Climate Resilience Improvement Project, then Ministry of Irrigation and Water Resources Management, presently the Ministry of Irrigation, Water Resources and Disaster Management is the Implementing Agency of the Project and the Department of Irrigation, Mahaweli Authority of Sri Lanka, Road Development Authority and National Building Research Organization are the Implementing Agencies of the Project. The objectives of the Project are to reduce the vulnerability of exposed people and assets to climate risk and to improve the capacity to respond effectively to disasters. According to the Financing Agreement, the estimated total cost of the Project amounted to US\$ 111.8 million equivalent to Rs.14,617 million and out of that US\$ 110 million equivalent to Rs.14,382 million was agreed to be financed by the International Development Association. The Project commenced its activities on 05 August 2014 and scheduled to be completed by 30 May 2019.

### **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 with Sri Lanka Public Sector 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**

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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 judgment, 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, etc,
- (d) Whether the opening and closing balances, 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 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Financing Agreement 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 year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Financing Agreement,
- (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 Financing Agreement had been complied with.

### 3. Financial Performance

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#### 3.1 Utilization of Funds

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Certain significant statistics relating to the financing, budgetary provision for the year under review and utilization of fund during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA	110.0	14,382	3,250	16.76	2,558.06	49.52	7,190.39
GOSL	1.8	235	50	0.33	50.20	0.74	107.19
<b>Total</b>	<b><u>111.8</u></b>	<b><u>14,617</u></b>	<b><u>3,300</u></b>	<b><u>17.09</u></b>	<b><u>2,608.26</u></b>	<b><u>50.26</u></b>	<b><u>7,297.58</u></b>

Out of the allocation of US\$ 110 million equivalent to Rs.14,382 million made in the Financing Agreement, only US\$ 49.52 million equivalent to Rs.7,190.39 million had been utilized after lapse of 03 years of the operations of the Project as at 31 December 2017. Therefore, the possibility of utilization of balance amount of allocation of US\$ 60.48 million equivalent to Rs.7,191.61 million during the rest of the period of 1 ½ years would be remote, unless expedite action taken to implement the activities of the Project.

### 3.2 Physical Progress

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The activities of the Project mainly focus to establish more climate resilience economy and consisted with 04 main components of development of basin investment plans, increasing of climate resilience of infrastructure, implementation support of the Project and contingent emergency response. However, the physical progress on activities implemented under the each components of the Project was remained slow as at 31 December 2017, due to shortage of Expert's knowledge, bad weather condition and lack of required information for analytical and forecasting purposes as described below.

- (a) The Project Monitoring Unit was operated with shortage of suitable experts for the key posts of Senior Social Safe Guard and Resettlement Specialist, Communicate Specialist, Environment Safe Guard Specialist, Human Resources Officer and other several posts of supporting staff.
- (b) The National Building Research Organization engaged in the consultancy services of the Project also runs with shortage of consultancy staff. As a result, the slip stabilization works of 06 schools, out of 18 schools in Kandy District which are vulnerable to landslip risks had not been completed at the end of year 2017. Eventhough the National Building Research Organization had taken action to recruit Consultants on contract basis, it was also not successful as expected, due to lack of experiences of consultants as well as contractors on slope stabilization works.
- (c) Eventhough the consultancy contracts for development of 10 river basins were scheduled to be awarded under the Component of "Basin Investment Plan". The Ministry of Irrigation, Water Resources and Disaster Management had taken action during the year under review to award the contracts for Consultants only for the development of the Kelani River, Atthanagalu oya, Malwathu oya and Deduru oya river basins. According to the explanations of the Project Director, the feasibility study reports thereon had been prepared with delays, due to late submission of 40 years rainfall data and other information by the Metrological Department and other agencies.
- (d) The Road Development Authority had involved in rehabilitation of bridges of the national roads under 12 contract packages and stabilization of slopes in road sides under 08 other contract packages to prevent landslide risks and ensure transport continuity. The physical progress of the rehabilitation works of the bridges of Koddamunai Batticola – Thrikondimadu Trincomalee Road and Peradeniya – Badulla – Chenkaladi Road had remained behind the targets and the works under the stabilization of slopes in road sides of Kandy- Mahiyangana Road had shown slow progress, due to lack of experts knowledge of the Road Development Authority as

well as the National Building Research Organization on for stabilization of slopes at the road sides.

### 3.3 Contract Administration

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The field inspections had been carried out by the auditors on test basis in February 2018 and the following matters had been revealed on constructions works carried out in Kandy district.

- (a) A contract had been awarded to a private company at an estimated cost of Rs.95.10 million to rectify the unstable slope of the Dharmaraja College in Kandy. Therefore, the action had been taken to insulate nails and wire net with a high pressure concrete layer to avoid risks on falling a rock behind the building and the office of the Principal of the College. However, “MANA” bushes had grown within the area of short creating concrete and it indicated that the short creating concreting works were not complied with required quality standard.
- (b) A sum of Rs.1.50 million had been spent to grow “Undupiyaliya” on the a coir sack and a wire net laid as a protective plant for land slide of the unstable slope of the swimming pool area of Dharmaraja College in Kandy. Further, a sum of Rs. 2.22 million had been spent to grow “Undupiyaliya” on coir sacks and wire nets laid at the unstable slopes at the rear side of the Mahamaya Girls’ School. However, it was observed that the “MANA” bushes had grown over the “Undupiyaliya” and the effectiveness of growing of the “Undupiyaliya”, as a protective plant is remained questionable.
- (c) It was observed that several construction works to mitigate the land slide risks in the government schools in the Kandy districts had been suspended halfway, allowing rooms for natural disasters and facing difficulties to continue the studies of children of the respective schools. The instances observed are described below.
  - (i) The construction works of the retaining wall to avoid the land slide risks of the two storied building and the access road of the Haloluwa Navodya School had been suspended halfway as at 20 February 2018, due to failures of the contractors and therefore, the expected results had not been received timely to the beneficiaries.
  - (ii) The works of constructing of storm water drainage system of Ananda College in Kandy had been abandoned halfway as at 20 February 2018 with possible damages to the retaining wall constructed at the side of main road.
- (d) According to the Action Plans of the Project, 63 procurement activities valued at Rs.1,257.24 million was required to be completed at the end of the year under review. However, 32 procurement activities valued at Rs. 317.63 million had not been completed as at that date.

### **3.4 Human Resources Management**

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The Project consisted with the approved cadre of 1,117 officers for 230 posts for 06 Project Implementation Unit and Project Management Units, the vacancies of 461 officers for 132 posts had remain vacant over 01 years. However, an Environmental Protection Expert, 03 Project Engineers, a Technological Officers had been deployed by the Project Implementation Unit and Road Development Authority without obtaining the approval of the Department of Management Services.

### **3.5 Issues relating to the financial controls of the Project**

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The following observations are made on the internal audit activities of the Project.

- (a) As required by the Project Administration Manual, the internal audit activities required to be implemented by an Internal Audit Committee of the Project consisted with a Director and an Accountant of Department of Irrigation, a Director of Mahaweli Authority of Sri Lanka and 03 Senior Audit Officers of the Road Development Authority, National Building Research Organization and Ministry of Irrigation, Water Resources and Disaster Management appointed by the Project Director contrary to the Management Audit Circular No. 02/2016 of 10 June 2016 of the Secretary to the Ministry of Finance. Further, many of above mentioned officers were involved in management decision making process of the activities of the Project and therefore, independent reviews on the operations of the Project would not be carried out.
- (b) It was observed that the internal audit reports for the 09 months period had been submitted as at 31 December 2017 and the observations contained in the respective internal audit reports indicated that detailed investigations had not been carried out to make material findings on activities of the Project.
- (c) Eventhough the internal audit reports required to be directly submitted to the Secretary to the Line Ministry of Ministry of Irrigation, Water Resources and Disaster Management according the Project Administration Manual, the required reports had been submitted to the Project Director.