

Mahaweli Water Security Investment Programme - 2017

The audit of financial statements of the Mahaweli Water Security Investment Programme 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 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 and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Programme, the Ministry of Mahaweli Development and Environment is the Executing Agency and Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agencies of the Programme. The objective of the Programme is to secure access to water resources for agricultural and drinking purposes in the Programme area. As per the Loan Agreements the estimated total cost of the Programme amounted to US\$ 190 million equivalent to Rs.28,713 million and out of that US\$ 150 million equivalent to Rs.22,668 million was agreed to be provided by the Asian Development Bank. The Programme 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 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 Programme'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 Programme'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 Programme management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme 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 opening and closing balances, withdrawals from and the replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme 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 Statement of Expenditure 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 Agreements had been made in accordance with the requirements specified in the Loan Agreements.
- (g) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Programme.
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (j) Whether the 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 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 Programme 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 Programme as at 31 December 2017 in accordance with Sri Lanka 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 the replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme 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 applications for reimbursement in accordance with the requirements specified in the Loan 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 Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

The balances payable amounting Rs.35.41 million as at 31 December 2017 on civil works of Upper Elahera Canal Project and Minipe Left Bank Rehabilitation Project had not been accounted and shown in the financial statements.

2.2.2 Non - Compliance with Laws, Rules and Regulations

According to the provisions made in the Management Services Circular No. 1/2016 of 24 March 2016, it was not permitted to recruit the persons over the age of 65 years for staff of the Programme Management Unit. However, a person over the age of 65 years had been recruited by the Programme as a Senior Engineer and remunerations amounting to Rs.751,200 had been paid during the year under review.

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 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		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
ADB							
- Loan No 3267	76.00	11,485.10	2,068.48	3.70	561.60	6.60	998.80
- Loan No 3268	74.00	11,182.90	1,996.32	6.40	974.40	12.50	1,833.80
GOSL	40.00	6,044.80	786.20	2.90	436.40	5.10	752.70
Total	<u>190.00</u>	<u>28,712.80</u>	<u>4,851.00</u>	<u>13.00</u>	<u>1,972.40</u>	<u>24.20</u>	<u>3,585.30</u>

3.2 Physical Progress

According to the Action Plan for the year under review, the activities of the Programme were scheduled to be implemented under the 04 main components such as construction of Upper Elahera Canal Project, construction of North Western Province Canal Project, rehabilitation of Minipe Left Bank Canal Project and providing of constancy services etc, and the physical progress of 14 per cent of works thereon were expected to be achieved. However, only 08 per cent of physical progress of works had been achieved at the end of the year under review, due to delays in awarding of contracts. The following further observations are made.

- (a) According to the Action Plan for the year under review, contract for the construction of Kaluganga, Moragahakanda Transfer Canal under the Upper Elahera Canal Project scheduled to be awarded during the year under review had not been awarded, due to complexity in application of procurement procedures. Therefore, only a sum of Rs. 352 million had been utilized out of the allocation amounting to Rs.1,819 million made thereon.
- (b) According to the work plan of the North Western Province Canal Project, 03 contracts were expected to be awarded as at 31 December 2017 and out of that only the contract for the improvement of Wemedilla Left Bank Main Canal upto Nabadagahawatta had been awarded on 29 December 2016. However, the physical progress of the construction works of the respective contract had remained slow at 05 per cent during the year under review.
- (c) It was observed that the construction works of the new sluice gates of Wemedilla tail canal had been suspended over 08 months, due to delays in approval of the designs by the Consultant.
- (d) According to the Action plan for the rehabilitation works of the Minipe Left Bank, 04 civil works contracts had been awarded, out of 06 civil works contracts expected to be awarded as at 31 December 2017. However, the construction works thereon had reported slow progress of 17 per cent than expected progress of 25 per cent as at 31 December 2017. According to the explanations made by the Project, the

rehabilitation works were interrupted by issuing water for cultivation purposes on the requests made by the farmers.

- (e) The contract for the consultancy services of improving system efficiencies and water productivity had not been awarded, due to issues raised in selection of the Consultants. Therefore, the allocations amounting to Rs. 77 million made thereon had remained underutilized as at 31 December 2017.

3.3 Contract Administration

The contract awarded to construct an irrigation canal with the length of 6.20 kilometres from Moragahakanda Tank to Konketiya Tank across the Giritale Reserved Forest had been commenced only at 03 locations at the end of the year under review. It was revealed that the reconstruction works of the Konketiya Tank carried out under the Moragahakanda Development Project was not successful, as the height of the dam of the Tank partly completed by other donor funded project was not adequate for watering purposes and additional works required to be carried out to increase the level of the dam under this Project. As a result, the possibility of completion of the works at the initially estimated cost of the contract is remained doubtful.

3.4 Issues on Environmental Matters

The following observations are made.

- (a) According to the contract agreement a sum of Rs. 94.80 million had been allocated to implement programmes to mitigate environmental damages caused, due to the development works of the Upper Elahera Canal. However, 07 sign boards for informational purposes had only been erected thereon at a cost of Rs.1.10 million. Further, even though the contractor is required to take action to plant trees of 500 acres of elahera area and maintain as forests, no any action had been taken as at 31 December 2017. The site visits made on 03 April 2018 had revealed that the land of the Giritale Reserve Forest lying in 03 kilometres of both sides of the Upper Elahera Canal had been cleared and no action taken by the contractor to plant the recommended trees.
- (b) A sum of Rs.12.40 million had been allocated in the contract agreement to implement programmes to mitigate environmental damages caused, due to rehabilitation works of Minipe Left Bank Canal up to 30.14 kilometres and no action had been taken by the contractor thereon. Further, the contractor had also not taken actions to plant trees in 145 acres of the area of the Project as at 31 December 2017, as required in the provisions made in the contract agreement.

3.5 Underutilized Assets

The improvement works of the buildings at Polpithigama belongs to the Irrigation Department had been carried out by the Project and a sum of Rs. 9.8 million had been spent during the year under review to procure fixtures and fittings and other renovation works. However, the site inspection made on 10 May 2018 had revealed that the respective building was remained unused by the Project Management Unit.

3.6 Issues on Financial Control

The expenditure incurred by the Programme during the year under review amounting Rs.1,535.57 million was not agreed with the cost amounting Rs.1,506.22 million of the Programme shown in the records maintained by the General Treasury as at that date. The entries made in the records of General Treasury on capitalization of loan interest amounting Rs.48.74 million and adjustments made to record the net balance of expenditure amounting Rs.78.09 million incurred by the Programme Monitoring Unit were the main reasons for the above difference.

3.7 Human Resources Management

According to the approved cadre by the Department of Management Service, the staff of the Programme comprised with 185 cadre positions and out of that, 85 officers including the key posts of 02 Deputy Project Directors, 14 Project Engineers and 10 Senior Technical Officers had remained vacant over 02 years.