

## **Mahaweli Water Security Investment Programme -Tranche 01 - 2018**

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The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 01 for the year ended 31 December 2018 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 the Loan Agreement No.3267-(SRI) and Article 4.03 (a) of the Loan Agreement No.3268-SRI(SF) dated 17 September 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

### **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 purpose in program 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 financed by Asian Development Bank. The balance amount of Rs. 6,045 million is expected to be financed by the Government of Sri Lanka. The Programme commenced its activities on 17 September 2015 and scheduled to be completed by 31 December 2019.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Physical Performance

### 2.1 Physical progress of the activities of the Programme

The activities of the Programme were expected to be implemented under 03 main components and the physical progress of the works is described as follows.

Component	<u>As at 31 December 2018</u>		Audit Issue	Impact	Reasons for delays
	Expected physical performance Percentage	Performance achieved Percentage			
Construction of Upper Elahara Canal	19.54	13.45	Delays in awarding of the contract and temporally suspension of the works by the contractors.	Delays in completion of works and possible to increases of costs.	The activities under the contract were commenced with delays.
Construction of North Western Province canal	37.94	25.55	Delays in awarding a contract and slow progress of works implemented under other 02 contracts awarded.	The expected benefits will not be received to the stakeholders.	Due to shortcomings of the designs of the works and issues on land acquisitions.
Rehabilitation of Minipe Left Bank	41.27	35.55	Slow progress on implementation of the activities of the contract by the contractor.		Due to shortcomings of the designs of the civil construction works.

**Response of the Management** Action had been taken to recommence the works interrupted by the poor performance of the contractors and delays in commencement of works, due to design changes and issues on acquisition of lands etc.

**Auditor's Recommendations** The civil construction works to be completed under the contract packages need to be closely monitored as enable to complete the works in cost effective manner within the time frame stipulated by the Project

## 2.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>a) Eventhough the period of the contract for rehabilitation works of Weemadilla Left Bank Main Canal and the construction of branch canals under construction of the North Western Province Canal was ended as at 31 December 2018, rehabilitation works of bridges, bathing steps and turnout structures in 50 locations were remained uncompleted.</p> <p>Further, the rehabilitation works of the main Canal at 4+ 424 kilometres had not been commenced. The extension of time had been granted in 10 instance, due to delays in submission of structural designs by the site Engineers and conflicts raised on land disputes.</p>	<p>Overrunning of contract cost.</p>	<p>The contractor was unable to complete the works, due to adhoc water issues to Devahuwa and Wemedilla irrigable areas on farmers' requests, design issues under the contract and issues on land acquisition.</p>	<p>Action should be taken to minimize the unexpected delays and incurring cost thereon.</p>

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| b) | The contracts for the construction of Main Canal from Nabadagahawatta to Mahakithula Reservoir and tunnel awarded on 05 July 2018 had not been commenced even as at 01 November 2018, due to delays in handing of the site to the contractor.   | Overrunning of contract cost and delays in completion of works. | The reason for this was the non-fulfillment of contract deliverables by the contractor as scheduled, due to delays in completing land acquisition process including valuation works.   | } Action should be taken to minimize the unexpected delays and incurring cost thereon. |
| c) | The physical progress of the contract of construction canal from Moragahakanda Reservoir to Kongetiya Tank under the Upper Elahara Canal Project had shown slow progress of 27 per cent, eventhough 60 per cent of works to be completed as at 31 December 2018, due to the suspension of works for over 03 months by the contractor. | Overrunning of contract cost.                                   | Due to the contractor's financial crisis, the works were stopped from August to December 2018. The contractor re-commenced at the end of December 2018 and the works are now going on. |  |

### 2.3 Issues related to the Environmental Matters

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
Although it was proposed to sign Memorandum of Understanding between Department of Forest Conservation and the contractor to carry out the activities including replantation of trees in 50 hectares of forest area, removal of invasive flora, conducting awareness programs for the general public on environment conservation etc, the respective activities had not been implemented as at 31 December 2018.	Possible effects of natural disasters such as soil erosion and landslides.	Due to the poor performance caused by unfavorable financial status of the contractor, the task of reforestation was not started	The immediate action should be taken to reforestation and conduct awareness programs.

### 2.4 Underutilized Resources

Audit Issue -----	Response of the Management -----	Auditor's Recommendations -----
Although 443 plots of lands in Galewela Divisional Secretariat had been identified to acquisition purposes, 82 plots of land had been acquired as at 31 December 2018. It was observed that a sum of Rs. 233.90 million had been remitted to the District Secretariats of Matale and Galewela and out of that a sum of Rs. 103.8 million had been utilized at the end of the year under review.	Not commented	The action should be taken to acquire the land as enable to continue the works smoothly.