

Climate Resilience Improvement Project - 2019

The audit of financial statements of the Climate Resilience Improvement Project for the year ended 31 December 2019 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 dated 31 July 2010 of International Development Association and section II C of the Schedule 2 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. My comments and observations which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, then Ministry of Agriculture, Livestock Development, Irrigation and Fisheries & Aquatic Resources Development, presently the Ministry of Irrigation is the Executing 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 improve the recipient's capacity to respond effectively to disasters. As per the Financing Agreement, the estimated total cost of the Project was 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 had commenced its activities on 05 August 2014 and scheduled to be completed by 31 December 2020.

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 2019, statement of expenditure 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 statement 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 the project’s internal control.
- 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 project

According to the Project Appraisal Document, the activities of the Project consisted with 04 main components namely (a) The Development of Basin Investment Plans, (b) Increasing Climate Resilience of Infrastructure, (c) Project Implementation and (d) Contingent Emergency Response. The following observations are made on the physical progress of the activities carried out by the project.

Audit Issue	Impact	Comment of the Management	Auditor's Recommendation
-----	-----	-----	-----
(a) Out of the total allocation of US\$ 110 million equivalent to Rs.14,383 million, only US\$ 79.32 million equivalent to Rs.12,389 million representing 72.10 per cent had been utilized as at 31 December 2019. The possibility of utilizing the balance amount of US\$ 30.68 million equivalent to Rs.1,994.05 million representing 27.89 per cent during the rest of the Project period of 8 months is remain. In this regard, prompt action had not been taken to implement the activities of the Project in efficient and effective manner.	Possibility to extension of the period of the project and cost increases	Project agrees with the above statement highlighted by the Auditor General. However by now project has received 6 months extension from the 30 th June 2020 and now the new closing date of the project will be 31 December 2020 and another 4 months period available to settle all bills. Therefore during this period project has planned to utilize remaining funds without any problems.	-- Action need to be taken to expedite the activities of the project to avoid extra time and costs
(b) According to the information made available for audit, Out of 516 contract packages valued at Rs.12,821.7 million awarded to contractors up to 31 December 2019, 30 contract packages valued at Rs.1,540.7 million had been remained without being com-	Possibility to extension of the period of the project and cost increase	These packages were terminated due to poor performances of the contractors. Some contracts were terminated due to financial issues of the relevant companies. After having careful assessment of the	Action need to be taken to expedite the activities of the project to avoid extra time and costs

pleted during the contract period and delays ranging from 01 to 34 months. The main reasons for the delays are poor contract administration and delays in settlement of the bills of the contractors. Further, 32 contract packages valued at Rs.759.9 million had been terminated at the end of the year under review, due to poor performance of the contractors and issues relating to financial capacity of the contractors.

balance work of terminated contracts and re-awarded them by using appropriate procurement method to achieve the originally expected scope.

2.2 Underutilized Resources

Audit Issue	Impact	Comment of the Management	Auditor's Recommendation
-----	-----	-----	-----
The Project office had spent Rs.14.09 million for the procurements of computers, accessories, furniture and fittings and office equipment, eventhough remaining period of the Project was less than one year.	Possibility to increase the project cost	During 2019, Rs 14,085,462 valued fixed Assets (Computer Accessories and Furniture & office equipment) have been procured by the project. But, out of that Rs. 2,086,864 valued assets were procured for district secretariat offices of Galle, Hambantota, Kalutara and Ratnapura under CERC component	- Meaningful action need to be taken to utilize the Assets made under the project

to expedite
respective
documentation
work.

The proposed new project CRes-MPA which is a continuation project of the existing CRIP project is prepared/ designed, assuming to commence by November 2019. With the approval of the cabinet note submitted in 2019, project has received the approval to utilize CRIP funds for the preparatory activities of the CRes-MPA.

Accordingly project has decided to purchase of computers and office equipment stage of CRes-MPA under the CRIP funding.

But due to unavoidable circumstances prevailing in the country, the new project implementation is being delayed and after identification of necessity and the requests of IAS, Rs.1,230,000 valued assets distributed to UVA PRDD, Rs.410,000 valued

assets distributed to ID and Rs.1,962,217 valued assets distributed to investment basin plan out of procured assets value. Rs.8,396,380 valued assets currently using by PMU for project activities of CRIP and CRes - MPA.

The CRIP project closing date is extended up to 31 December 2020, and after closing of the existing project, all assets will be utilized for the proposed new project CRes - MPA in future.