

## **Mahaweli Water Security Investment Programme -Tranche 02 - 2019**

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The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 02 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 Article 4.02 (a) of the Loan Agreement No.3625-(SRI) and Article 4.02 (a) of the Loan Agreement No.3626-(COL) dated 18 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

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According to the Loan Agreement of the Programme, the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development is the Executing Agency and Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agencies of the Programme. The objectives of the Programme is to secure access to water resources for agricultural and drinking purpose in program area. As per the Loan Agreement, the estimated total cost of the Programme was US\$ 242 million equivalent to Rs.43,734 million and out of that US\$ 210 million equivalent to Rs 37,951 million was agreed to be financed by Asian Development Bank. The balance amount of Rs 5,783 million is expected to be financed by the government of Sri Lanka. The Programme had commenced its activities on 23 July 2018 and scheduled to be completed by 31 December 2021.

### **1.3 Opinion**

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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, 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**

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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**

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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. Non Compliance with Laws, Rules and Regulations

<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Management Services Circular No.01/2019 para 2.3.2 and	The Project Director should be recruited on a full-time basis in order to ensure effective	Project administration problem can be arisen and Performance	Moragahakanda Project is nearing the completion and Moragahakanda and Upper Elahera project	Programme should follow the circular guidelines.

2.3.3(c) Project management. Further, according to the Section 2.3.3 (c) of the above circular an officer cannot serve in more than one project at a given period of time. However, Project Director of the Moragahakanda Project had been appointed as Project Director of the Upper Elahera Project on acting basis.

may be offices are situated very closely. After completion of Moragahakanda project he will be able to function full time at the Upper Elahera Project. Further, Project Director's appointment of Upper Elahera Project is a PS2 level position. The program requested MSD approval for the appointment of PD. Actions will be taken according to the MSD reply. Also, his acting salary payment has already been stopped by MSWIP until this issue is resolved.

**3. Contract Administration**

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
<p>a) Eventhough expected physical progress of the construction of Kalu Ganga and Moragahakanda Reservoirs Link Tunnel was 51 per cents, the physical progress of 28 per cent had only been achieved as at 31 December 2019. Further, a sum of Rs. 15.3 million allocated to minimize the environmental impact on the above contract, a sum of Rs. 0.7 million had only been utilized, due to contractor's contribution to environmental protection was remained at low.</p>	<p>Possible to misapplication of advances.</p>	<p>Agreed subject to remarks Physical progress by the end of May 2020 is 35 per - cent actions have been taken to expedite the program. A delayed occurred in receiving recommendations/ approval from line agencies (Forest Department/ Department of Wild Life Conservation) for mitigation and corrective actions.</p>	<p>Action to be taken to minimize the unexpected delays in implementing of the construction works.</p>

- b) Eventhough the Loan Uneconomic Agreed subject to Construction work Agreement of Mahaweli expenditure had remarks should be implement Water Security Investment been increased. NWPC-ICB 01 contract according to the loan Programme - Tranch 02 had is planned to be awarded agreement. been sign in 2018, contract in 3<sup>rd</sup> quarter of 2020. packages of NWPC-ICB – 01 and UECP- ICB- 02A had not been awarded at end of the year under review even lapse of two years. Further, interest and commitment charges of Rs. 81 million had been recovered by the Lending Agency without being achieved any physical progress on the above contract packages.
- c) According to the ADB Aide Overrunning of Agreed subject to All contract packages Memories meeting held in programme cost remarks Currently should be January 2020, total and expected available funds of the implemented in estimated cost of the benefits of the program is only USD 561 approved programme Programme had been programme can be minimized. million. Expected co- cost estimate. increased from US\$ 675 financing was not available. Government decided to restructure the program with the available funds. A cabinet paper will be submitted to get the approval to reschedule the program.
- Therefore, it was proposed to remove contract packages UECP - ICB - 5 and NWPC - ICB - 3 from the Phase I and included in the Phase II to reduce the cost. However, the impact of removal of above 2 contract packages from the Phase 1 had not been assessed by the Programme.