

## **Integrated Watershed and Water Resource Management Project (IWRMP) - 2023**

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The audit of financial statements of the Integrated Watershed and Water Resource Management Project (IWRMP) for the year ended 31 December 2023 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 provisions in the Loan Agreement No.6621-LK and 6619-LK dated 22 April 2021 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 Parliament appear in this report.

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

According to the Loan Agreement of the Project, the Ministry of Irrigation is the Executing Agency and Department of Irrigation, Mahaweli Authority of Sri Lanka, Northern Provincial Council Irrigation Department, Eastern Provincial Council Irrigation Department and Water Resources Board are the Implementing Agency of the Project.

The objectives of the Project are to restore the Upper Mahaweli Watershed, strengthen institutional capacity for water resources management and enhance the functionality of water resources infrastructure. Functionally refers to improved safety of dams and improved water distribution networks for irrigation. The activities of the project are implemented under four components namely Watershed & water resource management, Dam safety related infrastructure improvements, Contingency emergency response and project management.

As per the Loan Agreements, the estimated total cost of the Project was US\$ 75.03 million equivalent to Rs. 14,199.43 million and out of those US\$ 69.53 million equivalent to Rs. 13,158.55 million was agreed to be financed by International Development Association. The balance amount of Rs. 1,040.88 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 13 May 2021 and scheduled to be completed by 31 October 2025.

### **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 2023, statement of financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 scepticism 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 Project

Activity	As at 31 December 2023		Delay/ Issue	Audit	Reasons for delays
	Expected physical Performance	Performance achieved			
	Units/ percentage	Units/ percentage			
USD 22.13 million packages award during the year 2021 to 2025 as per the procurement plan	41 Packages scheduled to be awarded for the year – 2023	Only 24 Packages had been awarded	17 packages out of 41 had not been awarded.		Delay in supply and installation of reservoir dams, canals rehabilitation, improvements, installation of equipment and lifting machines
<b>Response of the Management</b>	Agreed				
<b>Auditor's Recommendations</b>	Project activities should be proceeded as per the procurement plan.				

### 2.2 Contract Administration

No.	Audit Issues	Responses of the Management	Auditor's Recommendation
(a)	A contract valued at Rs 532.85 million (excluding tax) was awarded on 28 December 2022 for the providing Rip-Rap Protection to Ampara Senanayake Samudraya Bund and Improvement to Bund Road belonging to Irrigation Department. It had been advertised in the media that low-quality granite was used in the preparation of the Rip-Rap and high-quality granite was applied on its surface. In this regard, the project had conducted an investigation and it was found that 282 cubes of two types of granite that had been transported to the work site for preparing the Rip-Rap were substandard and the contractor was asked to remove them from the work site and steps were taken to remove the non-standard stones used for the Rip-Rap and repair them again. Officers of Irrigation had also identified that the contractor had used substandard granite at some places in Rip-Rap.	When the site was inspected by the Regional Irrigation Engineer of Ampara on July 7, 2023, the contractor was instructed not to lay the filter layer material, numbered 5, which had been piled on the dam due to concerns about its quality, until the quality inspection reports were issued.	Sound & efficient procurement management system need to be implemented on monitoring & supervision of the procurement works carried out by the PMU.

- (b) A tax-free a contract was awarded for an amount of Rs. 40.02 million for the improvement of the Arawatta tank embankment belonging to the irrigation department and the contract was to be completed on 31 December 2022. However, this contract was extended on 03 occasions till 30 April 2024, and the construction progress was 84 percent at the end of the year under review. Due to extension of contract period Rs. 19.71 million had to be paid more for price variations.
- The allocated funds for price contingencies were insufficient, so an additional Rs. 21.58 million was approved by the Secretary of the Ministry of Irrigation. As a result, the revised estimate is now Rs. 61.60 million, and payments have been made accordingly.
- Sound & efficient procurement management system need to be implemented on monitoring & supervision of the procurement works carried out by the PMU
- (c) Rs. 805 million was allocated for install two permanent weight-lifting machines for the Polgolla and Udawalawa reservoirs belonging to the Mahaweli Authority. Seven months after the tender was called for this purpose, on 8 April 2022, two contracts totaling Rs. 797.61 million were offered. However, the contractor was unwilling to execute the contract at the previously offered price due to the depreciation of rupee, which resulted in higher costs for imported raw materials. The contractor later agreed to complete the project for Rs. 1,248.37 million. Consequently, it was agreed to pay Rs. 450.76 million more than the previous price. By the end of 2023, the construction progress of the heavy lifting machine for the Udawalawa Reservoir was at 33 percent, while the construction progress for the Polgolla Reservoir was at 37 percent
- Due to the country's foreign exchange shortage, the contractor requested payment in US dollars for importing construction materials. A method was established for this, subject to World Bank approval, through the IWWRMP Project.
- Before proposing project the priority of the proposal should be highly considered.
- Because of the sharp rupee devaluation, price contingencies were calculated based on the Construction Industry Development Authority (CIDA) indicators. The contracts were adjusted to account for these price contingencies, with a 10% contingency set aside for the dollar component.
- (d) A contract was awarded to a foreign company for an amount of USD 1,749,791.18 (Rs. 629.92 million) to install an automatic geodetic measurement system for monitoring the movements of Kothmale and Randenigala reservoir dams in the year 2022. contract was awarded After 11 months quoting the contract the the price was called and the contract was canceled by the Mahaweli Authority on 24 February 2023 as the contractor did not accept
- Bids were invited for the installation of an automatic geodetic measurement system to monitor the Kothmale and Randenigala reservoir dams. The contract was awarded on 8 August 2022 for a value of USD 1,749,791.18. However, due to Sri Lanka's
- Selecting a new contractor for execution the contract according to the World Bank guidelines as soon as possible.

the contract at the original price. This contract had not been awarded in this year also.

economic challenges, the contractor was unwilling to proceed at the agreed prices. Consequently, the contract was canceled on 24 February 2023.

- (e) Additionally, eight contracts under the Eastern Province Irrigation Department, with an estimated value of Rs. 620.29 million, were not started during the year under review. The task of assigning these contracts is handled by the project's procurement and contract department. Currently, only the department head and one female engineer are employed there, while the absence of four approved engineers and one management assistant has hindered the department's ability to fulfill its responsibilities.
- Plans have been made for seven projects, not eight, in the Eastern Province. Accordingly, out of these seven projects, five have already been initiated, with an allocated budget of Rs. 383.95 million.
- Sound and efficient procurement management system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU
- (f) According to Cabinet approval, USD 10 million (Rs. 3,000 million), originally allocated for the project, was spent on small and medium-scale irrigation rehabilitation works under the Mahaweli, Northern, and Eastern Provincial Irrigation Departments. Under this program, the World Bank approved 659 irrigation rehabilitation projects worth Rs. 2,235 million, however only activities of 493 projects had commenced.
- The World Bank has approved Rs. 29.50 million for 861 projects to be carried out by community-based organizations, utilizing 10 million USD. In addition, plans have been developed according to the following methodologies: approval has been granted for 12 projects under the force account methodology, 10 projects under the shopping methodology, and 9 projects under the national competitive bidding methodology.
- Out of the awarded projects, 685 have been initiated, payments totaling Rs. 1,200 million have already been made, and 300 projects have been completed to date
- Sound and efficient procurement management system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU

- (g) A contract valued at Rs. 221.99 million was awarded during the year under review to the International Water Management Institute for the preparation of a water resource management plan for the upper Mahaweli catchment areas, covering 3,100 square kilometers and including the Kothmale, Victoria, Randenigala, and Rantambe Reservoirs. The Mahaweli Authority and the Irrigation Department were involved in preparing reports for this project. However, these tasks, which were supposed to be completed by the staff of those institutions, were outsourced to an external party at a significant cost.
- It was inquired whether a similar Water Resources Management Plan for the Upper Mahaweli Watershed areas had been prepared by these institutions prior to this instance, as indicated in the note sent by the Secretary to the Ministry to the Additional Secretary (Sri Lanka Mahaweli Authority and Irrigation Department). It was reported that the aforementioned institutions have not previously developed water resources management plans of this nature and that they lack prior experience in this regard.
- Establish guidelines for outsourcing decisions, including a clear cost-benefit analysis. Outsourcing should only occur when it brings significant value or where specialized expertise is required that cannot be developed internally in a reasonable timeframe.