

Mahaweli Water Security Investment Programme - Tranche 3 - 2024

The audit of financial statements of the Mahaweli Water Security Investment Programme - Tranche 3 for the period ended 31 December 2024 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 4.02(a) of the Loan Agreement 4484 dated 20 September 2024 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 Programme

According to the Loan Agreement of the Programme, the Ministry of Irrigation 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 secure access to water resources for agricultural, drinking and commercial purpose in programme area. The activities of the programme are implemented under three components namely North Central Province Canal Project, North Western Province Canal Project, Minipe Left Bank Canal Rehabilitation Project.

As per the Loan Agreement, the estimated total cost of the programme was US\$ 106.75 million equivalent to Rs. 32,267.32 million and out of that US\$ 93 million equivalent to Rs. 28,111.11 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.4,156.21 million is expected to be financed by the Government of Sri Lanka. The programme had commenced its activities on 01 October 2024 and scheduled to be completed by 31 March 2025. However, the date of completion of the activities of the Programme had been extended up to 24 June 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 2024, statement of expenditure and its cash flows for the period 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 Programme'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

Audit Issue	Responses of Management	Auditor's Recommendation
ADB provided LKR 26,815 million (USD 93 million) for Phase 3 starting 01 October 2024, with activities under Tranche 3 scheduled for completion by 31 March 2025. By 31 December 2024, only Rs. 13,418 million (USD 45.6 million) was utilized, leaving Rs. 13,397 million (USD 47.4 million) unspent (over 49%). As of 11 April 2025, Tranche 3 funds remained underutilized. The GOSL contribution of Rs. 3,965 million (USD 13.75 million) had only Rs. 156 million (USD 0.54 million) spent by year-end, leaving Rs. 3,809 million (USD 13.2 million) unutilized.	Tranche 3 activation was delayed from the expected April 2024 to 01.10.2024 due to the 2022 economic crisis, making full utilization before closing challenging. The Ministry has raised the issue with the Ministry of Finance and ADB and requested approval to use the remaining funds within the loan period.	The project should utilize the allocated funds within the stipulated time period.

2.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) As at 31 December 2024, it was observed that Rs.22,665 million incurred for the three contract packages constructed underutilized.	Agreed.	The Project should implement these contract packages without any delay.
(b) The project, which had a planned completion date of 30 June 2025, failed to meet its defined objectives by the deadline of December 31, 2024. An audit observation highlights that, without the borrowing of additional loan facilities to finalize the outstanding project tasks, the accumulated project expenditure of Rs. 62,219 million, will be identify as sunk cost.	Discussions with donors are ongoing to secure additional financing, and the project remains committed to timely completion and achieving expected benefits.	The Project should implement project works without any delay in order to meet its defined objectives.

2.3 Utilization of funds

Audit Issue	Response of the Management	Auditor's Recommendation
Although the Retroactive limit of Rs. 5,363 million (USD 18.6 million) (20% of the loan amount) should be utilized out of approved loan amount of USD 93 million under Loan Account No. 4484 for Tranche 03 of the project, the project had exceeded that limit by Rs. 2,055.8 Mn (USD 7.13 million).	The PMU is discussing with ADB and GOSL to absorb this amount into Tranches 01 and 02, where it is expected to be eligible.	The project adhere with the conditions in the agreement relating to retroactive limits

2.4 Issues Related to Human Resources Management

	Cadre Position	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Design & supervision consultant	An officer who served in the Project Office until 12th November 2023 had terminated her service in the Project Office as stated in paragraph 2.2.8 of Circular No. 01/2019 upon attaining the age of 67 years. Although this officer was recruited for the position of Design and Supervision Consultant at the PMDSC from November 2023 and was paid a salary of Rs. 7,980,383 from November 2023 to December 2024, It was observed from the monthly time sheets submitted by the Project Advisory Office that this officer had performed the duties of the Project Office.	The officer referenced in the audit query was engaged by the PMDSC as a Project Consultant (Technical) for the MWSIP PMU until 12 November 2023. Due to a shortage of qualified personnel, her services were retained on an as-needed basis with the approval of the Ministry Secretary. She supported key technical functions, including ADB Tranche 3 documentation, Phase 1 completion, and Stage 2 planning.	Officers should be recruited in accordance with circulars, without making indirect recruitments and making payments.
(b)	Accountant position	During the recruitment for the Accountant (PS 04) position	The selected candidate for the PS 04 position met the	The project should follow the Clause

under Circular 01/2019, the selected candidate met the academic qualification requirements but had only seven years experience in accounts field as various position, including Assistant Accountant. But as per the circular the relevant officer did not meet the experience as an accountant, falling short of the nine years stipulated. Additionally, the interview board later revised the evaluation method, altering the scoring weight for experience and qualifications. This change led to the candidate receiving 15.2 points for accounting experience despite not fully meeting the criteria.

requirements of Circular No. 01/2019, possessing a UGC-recognized degree and over 15 years of relevant experience. The audit's mention of "professional experience" is incorrect, as the circular requires "relevant field experience." The scoring method was revised to avoid double-counting in large-scale foreign-funded projects, ensuring a fair and transparent recruitment process.

2.2.4 of Circular 01/2019 and Annex 01 regarding on the recruitment of project.

- (c) Deputy Program Director and Procurement Specialist
- Four senior Grade I management positions, including Deputy Program Director and Procurement Specialist, remain vacant since 2022. Additionally, there are 45 unfilled Grade II and III senior-level positions. The absence of a Procurement Specialist, despite handling over Rs. 17.4 billion in procurement from 2022 to 2024, may have contributed to procurement process weaknesses, as noted by the audit.
- Four senior-level positions, including Director (SIWRM), remain vacant as irrigation systems are incomplete and recruitment has been deferred. Initially, each project had a separate director, but due to resignations and project completions, current directors oversee remaining projects.
- Recruitments should be arranged according to available vacancies.