

## **Mahaweli Water Security Investment Programme- Tranche 01 - 2021**

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The audit of financial statements of the Mahaweli Water Security Investment Programme -Tranche 01 for the year ended 31 December 2021 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 4.06 (a) of the Loan Agreement No.3267-(SRI) and Section 4.03 (a) of the Loan Agreement No.3268-(SF) dated 17 September 2015 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) 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**

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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 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 was 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 had commenced its activities on 24 June 2015 and scheduled to be completed by 31 December 2019. However, the date of completion of the activities of the Programme had been extended up to 30 June 2024.

### **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 Programme as at 31 December 2021, 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 Qualified 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 Programme's financial reporting process.

## **1.6 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 Programme**

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

Components	As at 31 December 2022		Audit Issues	Impacts	Reasons for delays
	Expected physical performance Percentage	Performance achieved Percentage			
(a) Construction of Upper Elahara Canal	22	19	The desired physical progress had not been achieved, due to temporally suspension of the works by contractors.	Unexpected delays of project activities. It may be create an additional fund requirement. Further, it will also be affected to the agricultural activities.	The activities under the contract were commenced with delays and cash flow and labour shortages, due to Covid 19 Situation.
(b) Construction of North Western Province Canal	46	30	Delays in awarding one contract and slow progress of awarded two contracts in 2016 and 2018.	The expected benefits will not be received to the stakeholders.	Due to shortcomings of the designs of the works and issues on land acquisitions.
(c) Minipe Left Bank Rehabilitation	100	87	Slow progress of an awarded contract in 2018.	The expected benefits will not be received to the stakeholders.	Due to shortcomings of the designs of the civil construction works.

**Response of the Management** The main reason for deviation was several waves of various kinds of Covid 19 and the Engineer and the Employer were forced to limit their mobility and restricted to work . As a result, the efficiency of the construction works drastically dropped as there were huge shortage of materials such as steel, cement in both Sri Lankan and global markets. Further, it was identified that most of the foreign contractors have faced a severe shortage of cash flow as they were unable to perform works as planned. Hence, cash flow shortages and labor shortages hinder the progress of the work.

**Auditor’s Recommendation** 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 Programme.

## 2.2 Contract Administration

Audit Issues	Response of the Management	Auditor's Recommendation
<p>(a) Main canal from Nabadagahawatta to Mahakithula Reservior inlet tunnel under construction of the North Western Province Canal had been expected to be completed as at 06 May 2021. Only 62 per cent physical progress had been achieved as at 31 December 2021. Time extension had been granted up to 24 September 2022.</p>	<p>Due to the delay in land hand over and specially the 10 Appeal Board Cases exists from 2018, contractor was unable to continue the construction works.</p>	<p>Action should be taken to minimize the contract variation.</p>
<p>(b) The construction of Upper Elahara Canal from 0+100 km to 3+860 km under construction of the Upper Elahara Canal should be completed as at 8 January 2020. Expected physical progress was 100 per cent. However, the actual progress was only 64 per cent as at 31 December 2021. Due to poor progress, Contract had been terminated on 7 June 2021. the contractor had been filed an injunction in the Colombo District Court to prevent from liquidating the bank bonds in lieu of performance and the mobilization advance valued to Rs.608 million.</p>	<p>This issue was taken into the Attorney General (AG) Department and AG Department has appealed in the supreme court against the verdict of the Commercial High Court's, the hearing is awaiting in the Supreme Court.</p>	<p>Action should be taken to minimize the contract variation.</p>
<p>(c) Contract period of heightening of Minipe anicut including water control and measurement facilities under construction of Minipe left bank canal rehabilitation should be ended as at 12 November 2020. The contract period had been extended up to 21 May 2021, due to Failure of the contractor to complete the construction work in contract period. However, works had not been completed within the time of extension period. Actual physical progress is only 73 percent as at 31 December 2021.</p>	<p>Some of the site staff and workers were tested positive for the Covid-19 and the restrictions imposed during the peak period, resulted difficulties in deliveries of material to the site as well.</p>	<p>Action should be taken to acceleration the contraction works.</p>
<p>(d) The consultancy service of improving system efficiencies and water productivity (ISEWP) had been planned to implement in 2015 – 2017 and it had been extended up to 18 December 2021. However, the report had not been presented up to May 2022.</p>	<p>The Draft Final Report was submitted to PMU on 24 May 2022 which is now under review.</p>	<p>Action should be taken to implement the consultancy service according to relevant time period without delay.</p>

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| <p>(e) Eventhough it was expected to acquire 741 plots of Lands in relation to the Upper Elahara Ela project on 31 December 2021, any plots of Lands had not been acquired as at 31 December 2021. Further, 961 plots of Land were expected to be acquired in connection with the North Western Provincial Canal Project and 947 plots of Land had been acquired as at 31 December 2021. However, no any plots of Land had been registered under the section 44 of the Land Acquisition Act as at 31 December 2021.</p> | <p>The Covid-19 pandemic situation in 2020 and 2021 in the Country has faced many hindrances in delaying the land acquiring process due to limited mobility and restricted to work within a limited area by adhering to the health guidelines issued by the Ministry of Health.</p> | <p>Action should be taken to accelerate the land acquisition activities.</p> |
| <p>(f) Although Rs.64.8 million had been allocated by planning to sign agreements by 20 July 2021 for the purchasing of 60 radio collars for elephants according to the Procurement Plan 2021, the actions to appoint the Technical Evaluation Committee was in progress even by the month of May 2022.</p>   | <p>The outside inputs from the experts from Wild Life Department has to be sought which has resulted in delay in finalizing the bidding document. Once the document was finalized TEC was appointed in May 2022.</p>  | <p>Action should be taken to implement the programme without delay.</p>      |