

Dam Safety and Water Resources Planning Project (Additional Financing) for the first accounting period from 23 October 2014 to 31 December 2014

The audit of financial statements of the Dam Safety and Water Resources Planning Project (Additional Financing) for the first accounting period from 23 October 2014 to 31 December 2014 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 General Condition for the Financing Agreement No:5445-LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry of Irrigation and Water Resources Management is the Implementing Agency of the Project. According to the Gazette Notification published on 18 January 2015, the Project is operated under the preview of Ministry of Mahaweli Development and Environment. The objectives of the Project are to establish long-term sustainable arrangements for the operation and maintenance of large dams and improve water resources planning. According to the Financing Agreement, the estimated total cost of the Project was US\$ 84.5 million equivalent to Rs.11,036.91 million and out of that US\$ 83 million equivalent to Rs.10,841.5 million was agreed to be financed by the International Development Association. The Project commenced its activities on 23 October 2014 and scheduled to be completed by 15 May 2018.

Financial Plan

According to the Project Agreement, the financial plan of the Project is as follows.

Source of Fund	Component	SDR million	US\$ million	Rs. million
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IDA CE-5445	Dam Safety and Operational Efficiency Improvement	46.48	71.84	9,387.70
	Hydro –Meteorological Information System Improvement	1.92	2.97	386.90
	Multi Sector Water Resources Planning	2.59	4.00	521.10
	Project Management and Monitoring	2.71	4.19	545.80
GOSL	Project Management and Monitoring	-	1.50	195.41
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	Total	<u>53.70</u>	<u>84.50</u>	<u>11,036.91</u>

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operations of the Project.
- b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and Lending Agency, the progress of the Project in financial and

physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchase made out of the Loan etc.

- d) Whether withdrawals under the Loan had been made in accordance with the specification laid down in the Financing Agreement.
- e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purpose of the Project.
- f) Whether the expenditure had been correctly identified according to the classifications adopted for the implementation of the Project.
- g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- h) Whether financial covenants laid down in the Financing Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirement specified in the Financing Agreement, and
- (d) the financial covenants laid down in the Financing Agreement had been complied with.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and utilization of funds during the period under review are shown below.

Source	Amount agreed to be provided according to the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Fund utilization during the period under review	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
IDA	83.00	10,841.50	150.00	0.87	114.29
GOSL	1.50	195.41	-	-	-
Total	<u>84.50</u>	<u>11,036.91</u>	<u>150.00</u>	<u>0.87</u>	<u>114.29</u>

3.2 **Physical Performance**

This Project is implemented as an extension of the Dam Safety and Water Resources Planning Project and a separate overall Project plan for the entire period for additional funding purposes and action plans to ensure the achievement of the targets of the Project in an economical and efficient manner had not been prepared.

3.3 **Contract Administration**

The contract for rehabilitation of Minipe trans basin canal had been awarded at Rs. 430.84 million to the third minimum bidder eventhough the second minimum bidder had fulfilled all the necessary requirements for technical evaluation purposes. The difference of the bid prices amounted to Rs. 7.55 million. According to the explanation made by the Secretary to the Ministry of Mahaweli Development and Environment, second minimum bidder had been rejected due to previous poor performance. Further, Engineer's Estimate for the contract amounted to Rs. 300.54 million and offered the contract at a bid value which 43 per cent higher than the estimated cost.

3.4 **Human Resources Management**

The cadre for Dam Safety and Water Resource Planning Project - Additional Financing had not been separately approved by the Department of Management Services as required by the Circular No. 33 of 05 April 2007 and continued its operation with the staff of Dam Safety and Water Resource Planning Project.