

## **Dam Safety and Water Resources Planning Project - 2014**

The audit of financial statements of the Dam Safety and Water Resources Planning Project (DSWRPP) for the year ended 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 Loan Agreement No. Q5200 dated 16 March 2006, the Grant Agreement No: TF056901 dated 28 August 2006 and the Financial Agreement No. CE4406 dated 01 May 2008 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 Loan and Grant Agreements of the Dam Safety and Water Resources Planning Project, then Ministry of Irrigation and Water Resources Management, presently the Ministry of Mahaweli Development and Environment is the Implementing Agency of the Project. The objectives of the Project are, (a) Dam Safety and Operational Efficiency Improvements, (b) Modernization and Upgrading of Hydro Meteorological Information System and (c) Multi-Sector Water Resources Planning. According to the Loan and Grant Agreements, the estimated total cost of the Project is US\$ 72.21 million equivalent to Rs.8,217.29 million and out of that US\$ 65.88 million equivalent to Rs 7,494.07 million representing 91.23 per cent was agreed to be financed by the International Development Association. The Project commenced its activities on 30 June 2008 and scheduled to be completed by 30 June 2013. However, according to the decision of the Ministers of Cabinet at the meeting held on 07 July 2011, the period of the Project had been extended up to 30 June 2015.

### **Financing Plan**

According to the Loan Agreement the Financing Plan of the Project, including the domestic funds amounted to US\$ 72.21 million as shown below.

<b>Agreement</b>	<b>Category</b>	<b>SDR million</b>	<b>US\$ million</b>	<b>Rs. million</b>
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IDA-CE-4406	Works	18.70	29.72	3,395.59
Q-5200 Loan	Goods including Equipment and Vehicles, Consultants Services and Training	18.77	29.84	3,409.30
	Incremental Operating Costs	0.88	1.40	159.95
	Refund of Project Preparation Advance	0.32	0.51	43.07
	Unallocated	<u>2.43</u>	<u>3.86</u>	<u>441.02</u>
	<b>Sub Total</b>	<u>41.10</u>	65.33	7,448.93
IDA-TF-056901 Grant	Consultant Service		0.50	41.04
	Goods, Training and Incremental Operating Cost		0.05	4.10
GOSL			<u>6.33</u>	<u>723.22</u>
	<b>Total</b>		<b><u>72.21</u></b>	<b><u>8,217.29</u></b>

### **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 Public Sector 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 and Grant etc.
- (d) Whether withdrawals under the Loan and Grant had been made in accordance with the specification laid down in the Loan and Grant Agreements.

- (e) Whether the funds, materials and equipment supplied under the Loan and Grant 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 Public Sector Accounting Standards.
- (h) Whether satisfactory measure had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan and Grant Agreements 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year 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 Public Sector 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 the support the applications for reimbursement in accordance with the requirement specified in the Loan and Grant Agreements.
- (d) the satisfactorily measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiency**

The cost of property, plant and equipment aggregating Rs. 938.45 million shown in the financial statements had not been agreed with the value of assets aggregating Rs.1,013.43 million shown in the corresponding details. Further, 04 motor vehicles procured at a cost of Rs. 83.87 million by the Project in 2012 for the use of Ground Water Monitoring System under Multi Sectorial Water Resources Planning had

continuously been shown under the value of works done instead of shown under the property, plant and equipment.

### 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 the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed to be provided according to the Loan/Grant Agreement		Allocation made in Budget Estimate	<b><u>Fund utilization</u></b>			
				during the year under review		up to 31 December 2014	
	US\$	Rs	Rs	US\$	Rs	US\$	Rs.
	million	million	million	million	million	million	million
IDA	65.88	7,494.07	1,921.00	14.92	1,920.69	57.64	7,028.36
GOSL	<u>6.33</u>	<u>723.22</u>	<u>350.00</u>	<u>1.73</u>	<u>224.96</u>	<u>6.99</u>	<u>826.29</u>
Total	<b><u>72.21</u></b>	<b><u>8,217.29</u></b>	<b><u>2,271.00</u></b>	<b><u>16.65</u></b>	<b><u>2,145.65</u></b>	<b><u>64.63</u></b>	<b><u>7,854.65</u></b>

#### 3.2 **Physical Progress**

The following observations are made.

- (a) Out of 31 contracts awarded under the Component of Dam Safety and Improvement of Efficiency, 19 contracts had only been completed as at 31 December 2014. Further, 12 contracts for additional works of the Dam Safety Improvement of Efficiency activities had been awarded at a cost of Rs.612.7 million and out of that, 02 contracts had shown slow progress of below 30 per cent as at 18 June 2015. Further, another 02 contracts for remedial works of the dams of the reservoirs at Polgolla and Nachchaduwa were awarded in December 2014 and expected to be completed by October 2015 even though the activities of the Project are expected to be closed on 30 June 2015.
- (b) Even though the development plans such as National Water Use Plan, Updated Mahaweli Water Resource Development Plan and the Mundeni Aru Basin Development Plan etc, had been prepared by the Project in 2013 at a cost of Rs. 479 million, action had not been taken to such plans to the Cabinet of Ministers even as at 31 May 2015.

- (c) Pre-feasibility studies had not been carried out by the Project under the Multi Sectorial Water Resources Planning. As a result, a sum of Rs. 187 million allocated thereon is remained unutilized.
- (d) The Project had awarded a contract at an estimated cost of Rs. 491 million to a foreign consultancy firm to prepare estimates for remedial works of the dams of several reservoirs and the consultancy firm had submitted the reports on cost estimates thereon, as agreed. However, the Project had subsequently identified additional works of dam valued at Rs.612.7 million.

### **3.3 Uneconomic Transactions**

It was observed that 03 Excavators, 08 Tippers and 03 Arial Platform machines had been procured by the Project at a cost of Rs 170.4 million during the year under review. The intended uses of such machinery had not been properly identified before calling Expression of Interest and allowed to use of the Mahaweli Authority of Sri Lanka and Department of Irrigation.

### **3.4 Contract Administration**

The following observations are made on the contract awarded on 28 May 2013 at an estimated cost of Rs. 382.99 million for remedial works of Nalanda dam.

- (a) According to the cost estimate, the total cost of the remedial works of Nalanda dam was Rs. 267.9 million. However, variation orders valued at Rs.254.5 million had also been requested by contractor as at 31 December 2014. Further, new works carried out at a cost of Rs. 160.38 million had also been categorized as variation of existing contract and mobilization advances amounting Rs.32.08 million had been made thereon without taking action to enter in to a fresh agreement.
- (b) It was observed that a sum of Rs. 2.5 million per month had been spent by the Project during the year under review to provide facilities for the contractors. However, no documentary evidence thereon was made available for audit.

### **3.5 Issues on Financial Controls**

The following observations are made in this connection.

- (a) The reports on Board of Survey carried out for 2013 and 2014 had not been submitted to audit as required by the Financial Regulation No. 756.
- (b) A Register of Fixed Assets had not been maintained as required by the Treasury Circular No.842 of 19 December 1978.

### **3.6 Human Resources Management**

The following observations are made.

- (a) Two Consultants had been recruited by the Project for short term eventhough such posts were not approved by the Department of Management Services. However, no any specific assignments or duty lists etc, had been issued for them. Further, it was observed that one Consultant is serving as a Procurement Assistant to the Procurement Specialist.
- (b) Two Engineers and two Accountants who have not completed necessary qualifications and experiences, as required by the Circular No. 33 of 05 April 2007 of the Department of Management Service had been recruited with effect from 01 January 2014.

### **3.7 Unsolved Audit Paragraphs**

Even though the following matters were highlighted in my .previous audit, the necessary action thereon had not been made even as at 31 December 2014.

- (a) Special studies not carried out on prevailing issues related to the dams of Senanayaka Samudraya, Samanala Wewa and Victoria Reservoir.
- (b) The research not carried out on remedial works of Polgolla tunnel.
- (c) Unutilized assets remained at premises of Implementing Agencies.
- (d) Over payment of foreign travel allowances for the staff members of the Project.