

## **Additional Financing for Dam Safety and Water Resources Planning Project - 2015**

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The audit of financial statements of the Additional Financing for Dam Safety and Water Resources Planning Project for the year ended 31 December 2015 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 of the Financing Agreement No. 5445-LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

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

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According to the Financing Agreement of the Project, the Ministry of Mahaweli Development and Environment is the Executing Agency and the Mahaweli Authority of Sri Lanka, Department of Irrigation, National Water Supply and Drainage Board, Water Resources Board, Provincial Councils and Ceylon Electricity Board are the Implementing Agencies of the Project. 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. As per 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 provided by the International Development Association. The Project commenced its activities on 23 October 2014 and scheduled to be completed by 15 May 2018.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement.
- (f) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (g) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (j) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the financial covenants laid down in the Financing Agreement had been complied with.

**1.5 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

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**2.1 Opinion**

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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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financing Agreement had been complied with.

**2.2 Comments on Financial Statements**

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**2.2.1 Non - Compliance with Laws, Rules and Regulations**

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According to the Section 3.2 of Management Circular No. 33, the period of service of officers of the donor funded Projects who released from the other organizations in public sector is limited to 05 years. However, 09 officers who released from Sri Lanka Mahaweli Authority are deployed by the Project over 05 years.

## 2.2.2 Fund utilized outside the Project Purposes

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A study tour to China from 27 July to 01 August 2015 for 14 officers of the Implementing Agencies of the Project had been organized by the Project Director through a Chinese Construction Company engaged for other donor funded projects. It was observed that 03 days, out of 07 days had been spent for the sightseeing and shopping purposes etc, thus indicated that the time allocated and cost of Rs.2.83 million spent thereon including an additional payments of allowances amounting to Rs.980,750 had not been utilized effectively to achieve the objective of the Project through acquiring knowledge and experiences.

## 3. Financial and Physical Performance

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### 3.1 Utilization of Funds

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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 2015 are shown below.

Source	Amount agreed for financing in the Credit Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year under review	as at 31 December 2015		
	US\$ million	Rs. Million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	83.00	10,841.50	1,910	13.89	1,935.02	15.04	2,049.31
GOSL	1.50	195.41	40	0.04	4.49	0.04	4.49
	<b>84.50</b>	<b>11,036.91</b>	<b>1,950</b>	<b>13.93</b>	<b>1,939.51</b>	<b>15.08</b>	<b>2,053.80</b>

### 3.2 Physical Progress

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The Additional Financing for Dam Safety Water Resources Planning Project is implemented as an extension of the Dam Safety Water Resources Planning Project implemented under the Loan No. Q 5200 of 16 March 2006 of the International Development Association up to 31 December 2015 and several activities scheduled to be carried out by the said Project had been transferred to this Project. The following observations are made thereon.

**(a) Dam Safety and Operational Efficiency Improvement**

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The following observations are made.

- (i) Action had not been taken even as at 31 December 2015 to award the contracts for remedial works of dams of 14 tanks under the purview of the Irrigation Department, 04 tanks under the purview of Sri Lanka Mahawali Authority and a tank under the purview of Ceylon Electricity Board, eventhough the allocation amounting to Rs. 720 million had been made for the year 2015 thereon. Further, according to the progress report as at 31 December 2015, remedial works of the dam of Malinda Wewa under the purview of the Irrigation Department and dams of Ambagahagama Wewa and Panakkaniya Wewa under the purview of Sri Lanka Mahawali Authority were withdrawn from the original plans subsequently.
  
- (ii) The remedial works of Pologolla Tunnel which was required to be necessarily carried out within the period ranging from 20 to 30 years of construction, according to the international safety standards had not been carried out under the first Dam Safety and Water Resources Planning Project, due to possible inconveniences caused to the general public by closure of the tunnel during the drought season. However, the allocation requested for the respective works under this Project had also been withdrawn by the Line Ministry without considering the alternative ways to carry out the respective activity.
  
- (iii) Action had not been taken to implement the activities for Data Acquisition and Display System and Earthquake Monitoring and Early Warning System which was transferred from the first Dam Safety and Water Resources Planning Project and the allocation amounting to Rs 80 million made thereon had not been utilized. According to the explanation made by Project Director, the activities of Data Acquisition and Display System is scheduled to be carried out by the Mahaweli Flood Monitoring and Reservoir Control Center and Earthquake Monitoring and Early Warning System is scheduled to carried out by the Geological Survey and Mines Bureau and therefore, the respective activities were not implemented by the Project.

**(b) Multi-Sector Water Resources Planning**

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The feasibility studies to be carry out to implement 03 water utilization plans prepared under the Component 03 of first Dam Safety and Water Resources Planning Project had been transferred to this Project. However, the respective activity had not been carried out even as at 30 April 2016 due to delays in taking policy decisions thereon. As a result, an allocation of Rs 13 million made thereon for the year under review under this Project had not been utilized.

### **3.3 Contract Administration**

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The following observations are made.

- (a) Eventhough the estimated cost of the contract for rehabilitation of Minipe Trance Basin Cannel amounted to Rs 300.54 million, the respective contract had been offered at a bid quoted at Rs 430.84 million made to the third lowest bidder. According to the explanation of the Project Director the second lowest bid price of Rs 423.28 million had been rejected due to poor performance of the bidder on previous contracts. The rehabilitation works under the contract had shown a slow progress of 31 per cent as at 31 December 2015 whilst it was expected to achieve 59 per cent of progress at that date.
- (b) A contract for construction of a new bridge over the Thabbowa Canal between Thabbowa and Thevanuwara Villages which maintained by the Irrigation Department had been offered on 26 November 2013 at a cost of Rs 14.75 million. However, the scope of the works had been continuously changed and 08 variation orders valued at Rs 5.71 million had been approved as at 31 December 2015. Further, 90 Hume Pipes were remained idle at the site, as a result of the changes of the scope of the works. The request made by the contractor to reimburse the cost of the Hume Pipes amounting to Rs.2.57 million had been approved by the Regional Director of the Department of Irrigation on 10 July 2015.
- (c) The contract for replacement and renovation of cables of 20 Slide Gates of Thabbowa tank had been offered on 19 March 2015 at a cost of Rs 2.31 million and out of that, 05 cables of Slide Gates were reported as broken as at 17 May 2016. As a result, the risks on reliable use of gates could not be ruled out in audit. Further, a sum of Rs 37.63 million had also been paid to the contractor to build a toe filter and toe drain of the bunt of Thabbowa tank. However, the contractor had not built such structure for 100 metre of the bunt of the tank and as a result, the objective to measure the water leakages was not achieved properly.

### **3.4 Extraneous Activity**

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A sum of Rs. 14.46 million had been spent by the Project, out of proceed of the Loan to renovate 09 circuit bungalows owned to the Implementing Agencies which extraneous to the objectives of the Project.

### **3.5 Idle Assets**

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It was observed that the lab equipment procured for the purpose of measurement of the water quality, buildings constructed and software developed thereon at a cost of Rs 91.2 million had remained idle as at 31 December 2015 due to lack of skilled staff.

**3.6 Issues on Financial Control**

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Register of Fixed Assets had not been properly maintained for the fixed assets valued at Rs. 304.68 million due to problems in identifying the locations of the respective assets. Further, the physical existence of such fixed assets could not be reliably verified due to lack of Board of Survey reports as at 31 December 2015.

**3.7 Human Resources Management**

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It was observed that an Accountant who over 60 years of age had been deployed by the Project under contract basis. Further, it was observed that false information had been provided in the Cabinet Memorandum to obtain the approval of the Cabinet of Ministers thereon.