

Dam Safety and Water Resources Planning Project - 2017

The audit of financial statements of the Additional Financing for Dam Safety and Water Resources Planning Project for the year ended 31 December 2017 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 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 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 operations and maintenance of large dams and improve water resources planning in Sri Lanka. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 84.5 million equivalent to Rs.11,154 million and out of that US\$ 83 million equivalent to Rs. 10,956 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

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 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 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the Statements of Expenditure 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 the 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.

2 Financial Statements

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and the 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 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure 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

2.2.1 Accounting Deficiency

The value of Property, Plant and Equipment shown in the statement of the financial position as at 31 December 2017 at a cost Rs.674.48 million was not agreed with the corresponding value of assets aggregating Rs.802.48 million shown in the Register of Fixed Assets, as several assets had been directly charged as the cost incurred under the components of the Project.

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 2017 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			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA	83.00	10,956.0	3,880.0	19.6	2,983.1	59.5	8,666.4
GOSL	1.50	198.0	40.0	0.2	34.0	0.4	57.5
Total	<u>84.50</u>	<u>11,154.0</u>	<u>3,920.0</u>	<u>19.8</u>	<u>3,017.1</u>	<u>59.9</u>	<u>8,723.9</u>

3.2 Physical Progress

The following observations are made.

- (a) According to the Work Plans of the Project, the remedial works of 15 dams of the reservoirs under the purview of Irrigation Department, 10 dams of the reservoirs remained under the purview of Sri Lanka Mahaweli Authority, 03 dams of the reservoirs remained under the purview of the Northern Provincial Council, a dam of a reservoir under the purview of Ceylon Electricity Board and 02 dams of the reservoirs remained under the purview of Kandy Municipal Council were expected to be completed as at 31 December 2017. Out of that the remedial works of 08 dams under the purview of Irrigation Department, 05 dams under the purview of Sri Lanka Mahaweli Authority and 03 dams under the purview of other 03 entities each had not been completed as at 31 December 2017. It was further observed that no time extensions on uncompleted remedial works under the purview of Irrigation Department had been granted even as at 31 December 2017.
- (b) The remedial works of several dams which remained uncompleted at the time of closure of previous Project called Dam Safety Water Resources Planning Project which was functioned up to 30 June 2015 had been transferred to this Project and according to the information made available, such works were not completed even as at 31 December 2017. Details are given below.
 - (i) A research works to recognize the needs of remedial works of Polgolla Tunnel expected to be carry out according to the paragraph 01 (n) of the

Financial Agreement of the previous project for Dam Safety Water Resources Planning which was transferred to this Project had not been initiated even up to end of the year under review.

- (ii) The activities on procurement of sluice barrel inspection instruments for the Implementation Agencies which were transferred from the previous project and expected to be completed at a cost of Rs.14 million had been suspended. Further, the works scheduled to be carried out under the allocation amounting Rs. 30 million in 2017 to improve the facilities of Geological Research Centre of the Irrigation Department had also been suspended.

3.3 Contract Administration

The following observations are made.

- (a) Eventhough the extension of time to complete the remedial works of the dam of Muwagammana Tank in Dehiattakandiya had been granted up to March 2018, it was revealed at the site visits made on 08 March 2018 that the major works under the contract such as civil construction works of the dam, rehabilitation works of the dam crest road, repairs of sluice gates, repairs of out let structure and canal linked to 02 other branch canals, construction of maintenance road and toe filter, construction of inspection foot path and buildings for field offices had not been commenced as at that date. Therefore, the possibility of completion of the respective works during the extended period was remained in doubt.
- (b) A contract had been awarded on 24 November 2016 at an estimated cost of Rs.262.09 million to construct a new building and repairs of existing building for Dam and Reservoir Management Centre at Polgolla under Sri Lanka Mahaweli Authority. However, the works under the contract could not be completed as at 31 December 2017, as the party presently occupied at the premises had refused to vacate the building.
- (c) The construction works of a building and procurement of the required lab equipment for new chemical laboratory of the Water Resources Centre in Anuradhapura under the allocation amounting to Rs.113.54 million made in the Procurement Plan had not been completed even as at 31 May 2018, eventhough the Project had reported it as a work completed as at that date.

3.4 Idle and Underutilized Assets

The following observations are made.

- (a) Construction works of a building for the National Center for Dam Safety completed on 16 May 2017 at a cost of Rs. 25.17 million had not been utilized for the intended purpose up to 31 December 2017.
- (b) The equipment and accessories for the Research Centre for Water Quality Management of Sri Lanka Mahaweli Authority procured at a cost of Rs. 37.40 million

in 2015 had remained unused up to 31 December 2017, as the building for the Research Centre had not been constructed. Out of that the equipment valued at Rs.26.50 million had remained obsolete as at that date.

3.5 Issues on Financial Control

The following observations are made.

- (a) The Board of Survey for the year ended 31 December 2017 on fixed assets procured by the Project had not been completed even as at 31 May 2017. As a result, the physical existence of fixed assets procured by the Project at a cost of Rs. 802.5 million could not be reliably verified.
- (b) The assets such as 03 dual purpose motor vehicles, computers, furniture and fittings etc. procured at a cost of Rs. 36 million had been transferred to the Project from the Dam Safety and Water Resources Planning Project which was closed the activities in 2015. However, action had not been taken by the Project to revalue the assets and brought to account, eventhough the respective assets are being used.