

Mahaweli Water Security Investment Programme-Tranche 02 - 2018

The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 02 for the first accounting period ended 31 December 2018 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 Article 4.02 (a) of the Loan Agreement No.3625-(SRI) and Article 4.02 (a) of the Loan Agreement No.3626-(COL) dated 18 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Programme, the Ministry of Mahaweli Development and Environment is the Executing Agency and Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agencies of the Programme. The objectives of the Programme are to secure access to water resources for agricultural and drinking purpose in program area. As per the Loan Agreement, the estimated total cost of the Programme amounted to US\$ 242 million equivalent to Rs.43,734 million and out of that US\$ 210 million equivalent to Rs. 37,951 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 5,783 million is expected to be financed by the Government of Sri Lanka. The Programme commenced its activities on 23 July 2018 and scheduled to be completed by 31 December 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

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

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 Project’s financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

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 skepticism 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. Contract Administration

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
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(a)	According to the information received, the contract for construction of 8.83 kilometres of the transfer canal of Kaluganga, Moragahakanda had been awarded on 04 May 2018 to a foreign company at an estimated cost	Possible misapplication of advances.	Comments not presented	Action to be taken to minimize the unexpected delays in implementing of the construction works.

of Rs.8,218.06 million. Eventhough the mobilization advances amounting to Rs.1,074.24 million had been released, the contractor commenced the works on 17 September 2018.

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| (b) | Further, the Environment Management Plan, Health and Safety plan, Detailed Work plan and the construction drawings etc, of the above mentioned construction works had not been submitted even up to 31 December 2018. | Possible delays in implementation of the activities of the Programme. | The insurance coverage, environment management plan, health and safety plan and the construction drawings etc had been submitted at present. | -do- |
| (c) | The contracts for construction of the section of 28 kilometres of the Upper Elahara Canal and Mahakithula tunnel of the North Western Canal had not been awarded even as at 31 December 2018. | The intended benefits of the Programme will not be reached to the general public in timely manner. | Due to delays in application of procurement procedures, the contract could not be awarded in time. | -do- |