

Dam Safety and Water Resources Planning Project - 2018

The audit of financial statements of the Additional Financing for Dam Safety and Water Resources Planning Project for the year 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 Section 4:09 (b) of General Condition of the Loan Agreement No.5445LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and International Development Association. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Mahaweli Development and Environment is the Executing Agency and 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 Agency 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 Loan Agreement, the estimated total cost of the Project amounted to US\$ 84.50 million equivalent to Rs.11,154 million and out of that US\$ 83 million equivalent to Rs. 10,956.0 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. However, the date of completion of the activities of the Project had been extended up to 15 September 2018.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, 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 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 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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. Comments on Financial Statements
2.1 Accounting Deficiencies

Accounting Deficiency / Audit Issue	Impact	Response of the Management	Auditor's Recommendations
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(a) Although the activities of the Project had been closed as at 15 September 2018, the financial statements for the year ended 31 December 2018 had been prepared on going concern basis without considering the limitations imposed by the Loan Agreement to curtail the operations of the Project.	Misapplication of the accounting policy.	The Secretary of the Line Ministry had decided to utilize the limited staff and assets to the proposed Watershed and Water Resources Management Project.	Action should be taken to wind up the activities of the Project and prepare financial statements.
(b) It was observed that 160 items of equipment and other assets procured at a cost of Rs.4.37 million during the period of the Project through the contractors involved for the activities of the Project had been included under the Project management expenses without considering the useful lives of such assets.	Erroneous application of accounting treatments	Not commented	The assets of the Project should be disclosed in the financial statements based on the useful lives.
(c) Property, Plant and Equipment procured by the Project at a cost of Rs. 959.60 million and recorded in the Register of Fixed Assets of the Project was not agreed with the corresponding costs aggregating Rs.829.62 million shown in the financial statements.	Un reconciled balances.	Not commented	The information shown in the financial statements should be agreed with the corresponding records.

3. Physical Performance

3.1 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The remedial and other works of several dams under mentioned which remained uncompleted at the time of closure of previous project called Dam safety Water Resources Planning Project implemented up to 30 June 2015 had been transferred to this Project. According to the information made available, the respective works were not completed even at the end of the period of this Project.	Expected outputs of the Project had not been completed		The urgent needs of the Project is required to be identified at the initial stage of the Project for the purpose of effective utilization of proceeds of the foreign loans and need to share this experience in implementation of the future projects.
(i) The research works to recognize the needs of remedial works of Polgolla tunnel		(i) Polgolla tunnel inspection was not implemented as the dates of dewatering was not determined by the Sri Lanka Mahaweli Authority. Further, this activity was withdrawn from the scope of the Project.	
(ii) The procurement of sluice barrel inspection instruments for the Implementation Agencies.		(ii) The specification to procure the sluice barrel inspection equipment was not submitted by the Implementing Agency.	
(iii) The improvements of Geological Research Centre of the Department of Irrigation		(iii) The improvement works of the Geological Research Center. Was withdrawn from the scope of the Project, due to issues on availability of lands.	

- (b) The feasibility studies expected to be carried out under this Project for National Water Utilization Plan, Updated Mahaweli Water Resources Plan, Mundeniaru River Basin Plan based on draft reports prepared by the previous project at a cost of Rs.516.821 million had not been completed.
- Expected outputs of the Project had not been completed
- The feasibility studies identified under the Component had been deleted, due to duplication of works carried out by other Project
- The needs of the Project is required to be identified at the initial stage of the Project
- (c) Action had not been taken to recover the mobilization advance amounting to Rs.20.81 million made to the outside parties, other advances amounting to the Rs.2.94 million made to the Implementing Agencies and unsettle retention money amounting to Rs.32.56 million payables to outside parties.
- The balances remained unidentified at the closure of the Project period.
- All the contracts payments had been settled.
- Need to take action by the Implementing Agency to recover the balances of advances.
- (d) A contract had been awarded on 24 November 2016 at an estimated cost of Rs.262.09 million to construct a new building and renovation of existing building for Reservoir Management Centre of Sri Lanka Mahaweli Authority at Polgolla. However, the renovation works of the existing building had been suspended subsequently and a sum of Rs 259.15 million had been spent for the construction of new building along with extra works approved thereon.
- Wasteful Expenses
- The works under building renovation was not implemented, because the existing building was not handed over by the Central Environmental Authority to the Sri Lanka Mahaweli Authority.
- Early action should have to be taken to negotiate with the sister organization.

3.2 Idle Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
----- The construction works of the training center at Kothmale had been substantially completed at a cost of Rs.132.84 million and handed over to Sri Lanka Mahaweli Authority in May 2018. However, the Training Centre had not been used for the training purposes even as at 31 December 2018 and the furniture and fittings procured at a cost of Rs.9.91 million had remained idle over 07 months at the end of the year under review.	----- Intended objectives of the Project were not achieved.	----- It was informed that several defects were identified in May 2018 and contractor is intended purposes involving the rectifying the identified defects.	----- Action should be taken to rectify the defects early and use the resources for intended purposes.