

## **Climate Resilience Improvement Project - 2018**

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The audit of financial statements of the Climate Resilience Improvement 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 the General Conditions for Credits and Grants of International Development Association and in Article I of the Financing Agreement No: 5417-LK dated 10 July 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to the Parliament appear in this report.

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

According to the Financing Agreement of the Project, then Ministry of Irrigation and Water Resources Management, presently the Ministry of Agriculture, Livestock Development, Irrigation and Fisheries & Aquatic Resources Development is the Executing Agency of the Project and the Department of Irrigation, Mahaweli Authority of Sri Lanka, Road Development Authority and National Building Research Organization are the Implementing Agencies of the Project. The objectives of the Project are to reduce the vulnerability of exposed people and assets to climate risk and improve the recipient's capacity to respond effectively to disasters. As per the Financing Agreement, the estimated total cost of the Project was US\$ 111.8 million equivalent to Rs.14, 617 million and out of that US\$ 110 million equivalent to Rs.14, 382 million was agreed to be financed by the International Development Association. The Project had commenced its activities on 05 August 2014 and scheduled to be completed by 30 June 2020.

### **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 statement 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 the Project's internal control.
- 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. Physical Performance**

### **2.1 Physical progress of the activities of the Project**

According to the Project Appraisal Document, the activities of the Project to establish more climate resilience economy consisted with 04 main components namely, the development of Basin Investment Plans, increase of climate infrastructure facilities, providing of implementation supports and improvement of mechanism for the purposes of contingent

emergency response etc. The following observations are made on the physical progress of the activities carried out by the Project.

<b>Audit Issue</b>	<b>Impact</b>	<b>Comment of the Management</b>	<b>Auditor's Recommendations</b>
The physical progress on activities implemented under the components of development of Basin Investment Plans, providing of implementation supports and contingent emergency response had remained slow ranging from 55 per cent to 72 per cent as at 31 December 2018 even after lapse of 53 months from the date of commencement of the activities of the Project.	Possibility to extension of the period of the Project and cost increases.	Not properly commented.	Action need to be taken to expedite the activities of the Project to avoid extra time and costs.

## 2.2 Observations made on site visits

The following observations are made.

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a) The works under the development of main canal of Muthukadiya Reservoir in Monaragala district had been implemented under 2 contract packages and the development works of first 5 kilometres of the canal was abandoned halfway, due to failures of the contractor. The development works of second 5 kilometres of the canal had been completed at a cost of Rs 23.49 million as at 30 November 2016 and it was revealed at the site visits made on 26 January 2017 that the abutment wall of 30 metres had been fallen into the canal due to poor construction works. However, action had not been taken to reconstruct the respective part of the wall as at 31 December 2018.	The intended benefits to the were not received to the stakeholders.	Action had been taken by Department of Irrigation to recover performance bond presented by the contractor. A sum of Rs.1.62 million had been deducted from the final payment to the second contractor.	Need to be strengthen the controls on contract management.

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| (b) | The development works on contracts awarded in 2016 under other 3 contract packages to develop branch canals of the Muthukadiya Reservoir at an estimated cost of Rs 50.94 million had been suspended in 2018 due to failures of the contractor.  | -do- | Action had been taken by Department of Irrigation to recover performance bond presented by the contractor.              | -do-   |
| (c) | It was observed that 04 contracts had been awarded at an estimated cost of Rs.112.57 million to execute the Hathwatunaoya Rehabilitation Project implement in Kurunegala district and several defects in rehabilitation works of right bank canal at 8+340 kilometre, construction of causeway at 0+409 kilometre and supporting wall at 11+50 kilometre of the left bank main canal had been revealed at the site inspection made in June 2019. Further, the roadworthiness of the section of 0+05 kilometre to 0+08 kilometre of the agriculture road was not remained upto the standards, due to poor compacting of gravel. | -do- | The contractor has been instructed to assure with quality controls on compacting of gravel up to the required standard. | Need to be strengthened the quality assurance. |

### 2.3 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
It was observed that only US\$ 63.56 million equivalent to Rs.9,470 million representing 57.78 per cent of the total allocation of US\$ 110 million equivalent to Rs.14,383 million had been utilized as at 31 December 2018.	The possibility of utilizing the balance amount of US\$ 46.44 million equivalent to Rs.4,913 million representing 42.22 per cent during the rest of the period of 18 months is remote.	Action has been taken by the Project jointly with its Implementing Agencies to expedite the activities of the Project.	Meaningful action need to be taken to utilize the allocation made under the Project.

## 2.4 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>The Project had not taken to recruit an Internal Auditor and instead, the internal audit activities are implemented by an Internal Audit Committee of the Project consisted with a Director and an Accountant of Department of Irrigation, a Director of Mahawelli Authority of Sri Lanka, and 03 Senior Audit Officers of Road Development Authority, National Building Research Organization and then Ministry of Irrigation and Water Resources Management appointed by the Project Director. It was observed that the detailed investigations had not been carried out by the Internal Audit as enable to make material findings on activities of the Project.</p>	<p>Affected to establish proper Internal control system in project activities.</p>	<p>Noted to follow circular instructions at the time of implementation of the new Project since this Project is remained at the ending stage.</p>	<p>It is not be able to carry out an independent review on activities implemented by the Project.</p>