

## **Climate Resilience Improvement Project (Additional Financing) - 2018**

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The audit of financial statements of the Climate Resilience Improvement Project (Additional Financing) 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.5768-LK dated 05 September 2016 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 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 and Aquatic Resources Development is the Executing Agency and the Department of Irrigation, Mahaweli Authority of Sri Lanka, Provincial Road Development Department of Uva 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 to improve the capacity to respond effectively to disasters. As per the Additional Financing Agreement, the estimated total cost of the Project amounted to US\$ 42 million equivalent to Rs.6,048 million and the entire amount was agreed to be financed by the International Development Association. The Project commenced its activities on 15 October 2016 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 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. Physical Performance**

### **2.1 Physical Progress on Activities carried out by the Project**

According to the Project Appraisal Document, the activities of the Project for additional financing purpose are mainly focused to establish more climate resilience economy and consisted with 02 main components of Climate Resilience Infrastructure Improvement and Support Services. The following observations are made on the implementation of the activities of the Project.

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	According to the information provided, 68 contract packages had been awarded by the Department of Irrigation up to 31 December 2018 and out of that 28 contract packages were scheduled to be completed as at 31 December 2018. According to the progress reports, the works under 17 contract packages had been substantially completed as at 31 December 2018. The physical progress of 11 other contract packages had remained at the range from 20 per cent to 85 per cent as at the end of the year under review.	The physical targets will not be able to achieve.	Not commented.	The reasons for the delays is required to be investigated as enable to avoid such weaknesses on application of future Projects.
(b)	It was observed that out of 17 contract packages awarded to the Mahaweli Authority of Sri Lanka and 15 contract packages were scheduled to be completed as at the 31 December 2018. It was reported that the physical progress of 06 contract packages had remained at the range from 10 per cent to 80 per cent at the end of the year under review.	-do-	Not commented.	-do-
(c)	The Provincial Road Development Department of the Uva Province had been awarded 17 contract packages out of that the physical progress of 04 contract packages had remained at the range from 55 per cent to 87 per cent at the end of the year under review.	-do-	Not commented.	-do-

## 2.2 Observations made on site visits

The following observations are made.

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	It was observed that the licenses for soil excavation and transporting of gravels issued by the Geological Surveys and Mines Bureau had not been made available for audit at the time of the site	The excavations works might be carried out in illegal manner	It is a responsibility of the contractor to supply suitable material and adopted with existing	Need to be instructed the contractors to adhere with the regulations.

visits made in June 2019 at the Muruthwela site. and possible regulations. misusing of the materials excavated.

- (b) A sum of Rs. 1.09 million had been spent by the Project for supply and compaction of 386 cubes of soil at Ridiyagama site without being obtained laboratory reports thereon. According to the information received, it was recommend to make payment for the supply of 7,562 cubes of gravel to reconstruct agriculture roads and canal banks at Ridiyagama. However, the license for transporting of 911 cubes of gravel had only been made available for audit and as a result, the actual quantity of gravel supplied could not be determined in audit.
- (i) Quality Assurance process was not properly adopted. According to the Measure and Pay contracts, work done have to be calculated after taking measurement, according to standard measurement procedure. Further, the compacting tests for gravel are doing after the works completed.
- (ii) Possibility to made fraudulent payment. Need to be applied strong controls on quality assurance and financial management.

### 2.3 Under-utilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Out of the total allocation of US\$ 42 million equivalent to Rs.6,048 million, only US\$ 14.02 million equivalent to Rs.2,262 million representing 33.38 per cent of the allocation had been utilized after lapse of 27 months from the operations of the Project as at 31 December 2018.	The possibility of utilizing the balance amount of US\$ 27.98 million equivalent to Rs.3,786 million representing 66.62 per cent during the rest of the period of 18 months would be remote.	Action had 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
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	Affected to establish proper internal control system in Project activities.	Project will follow circular instructions for the new Project since this Project had	Project will not be able to carry out an independent review on activities of the Project.

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 investigation carried out by the Internal Audit as enable to make material findings on activities of the Project.

come to the ending stage.