

Climate Resilience Improvement Project (Additional Financing) - 2019

The audit of financial statements of the Climate Resilience Improvement Project (Additional Financing) Project for the year ended 31 December 2019 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 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 Agriculture, Livestock Development, Irrigation and Fisheries & Aquatic Resources Development, presently the Ministry of Irrigation is the Executing Agency of the project 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 is 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 31 December 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 2019, statement of expenditure 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)	Out of the total allocation of US\$ 42 million equivalent to Rs.6,048 million, only US\$ 24.38 million equivalent to Rs.4,118.76 million representing 68.10 per cent of the allocation had been utilized after lapse of 39 months from the commencement of the activities of the Project. Therefore, the possibility of utilizing the balance amount of US\$ 17.62 million equivalent to Rs.1,929.24 million representing 31.90 per cent during the rest of the period of 12 months would be remote, unless expedite action taken to implement the activities of the Project. The main reason for the slow financial progress is delay in completion of construction and evaluation of contractor's bills.	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)	According to the Information provided, 80 contract packages at an estimated cost of 2,984.2 million had been awarded by the Department of	The physical targets will not be able to achieve	Out of 82 contract packages identified, based on the funds availability, 68 packages were awarded at the	The reasons for the delays is required to be investigated as enable to avoid such weaknesses on application of future project

Irrigation and out of that 45 contract packages at end of the year under review were completed as at 31 December 2019. 35 contract packages without being completion within the contract period and valued at of Rs.1,578.1 million were pending period the delay of these packages ranged from period from 01 month to 18 months.

inception of the project. The remaining 14 packages were awarded from savings received due to the USD appreciations against LKR, in 2nd half of 2019. These contracts are commenced with water issues for Yala and Maha season. Therefore, contractors are having limited off-seasons (Water closing period). By now, majority of these contracts are completed.

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| (c) | According to the information received, out of 27 contract packages valued at Rs.1,061.59 million had been awarded to the Mahaweli Authority of Sri Lanka, 15 contract packages valued at Rs.670.1 million had been remained without being completed as at 31 December 2019. Further, 02 contract packages valued at Rs.138.2 million had been terminated, due to failure to complete the contraction works within the contract period | The physical targets will not be able to achieve | 14 Nos. Contract packages were pending without being completed. Out of these 14 contract packages, 06 Nos. contract packages were completed within the contract period. 08 Nos. contract packages have delayed the completion. Most of these contract packages were rehabilitation of Main and Branch canals. These works can be only carried out during the water closer period in the months of March | The reasons for the delays is required to be investigated as enable to avoid such weaknesses on application of future project |
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& April, August & September. Within these water closer periods also water to be issued at least once a month for drinking purposes, which will disturb the construction activities. In addition, obtaining permits for soil for construction works also one of the reasons for the delay of completion of these works in time. All these packages will be completed before 31 December 2020.

It is true 2 contracts valued LKR 111.3 million have been terminated. One of the contract was terminated due to practical difficulties of undertaking construction work due to continue water issues of the System C main canal and non-availability of suitable borrow material in the area. Therefore MASL has terminator this contract assuming that it will be undertaken in later

stage by any other funding source.

The second contract package was terminated due to poor performance of the contractor in system L of MASL. Since this work which involves rehabilitation of Irrigation tanks and urgently need to be repaired MASL, PMU jointly with World Bank decided to undertake the balance work by force account method. By now 75% of the work has been completed and hope to complete the work before 2020.

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| <p>(d) 11 Contract packages at valued at Rs.1,655 million had been awarded to the Provincial Road Development (Uva) and out of that 05 contract packages valued at Rs.465.4 million had been completed as at 31 December 2019. However, 06 contract packages valued at Rs.1,190.15 million were remained without being completed during the period of contract, due to failure of the contractors.</p> | <p>The physical targets will not be able to achieve</p> | <p>The Auditors observation are correct. Up to date out of 11 contract package 08 has been completed. The Progress of the other on going contract packages are above the 90%. The total financial progress up to date is Rs.1,384,836,937. Above all contract packages could be completed before the 31st December 2020</p> | <p>The reasons for the delays is required to be investigated as enable to avoid such weaknesses on application of future project</p> |
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(including payments)

2.2 Observations made on site visits

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	Even though 07 contract packages out of 08 contract packages implemented by the Kandy Regional Irrigation Engineer's Office had been completed by the contractors as per the progress report submitted to the audit, it was observed at the site inspection that the works specified in the Bill of Quantity had not been completed by the contractors such as filling the soil on both sides of the canals at required places and applying water till for the grass sprouts at an estimated cost of at Rs.6,498,664 had not been carried out by the contractors	The work will not be able to complete properly	Contractors were unable to complete this sub item due to severe difficulties in the field to find out the suitable materials and get required approval from relevant authorities. This issue was discussed at the several meetings including in the parliament. The entire work will be 31 December 2020.	Need to be instructed to the contractors complete the work immediately
(b)	It was observed at audit inspection that 08 contract packages valued at Rs. 471.89 million had been awarded to carried out the activities of the Project in Hasalaka Regional Irrigation Engineering Area and scheduled to be completed by February 2019. However, 6 contract packages valued at Rs. 380.46 million had not been completed even up to July 2020. Further, action had not been taken to extend the validity period of the performance bond by the contractors. cost of at Rs.6,498,664 had not been carried out by the contractors.	The work will not be able to complete properly	Minipe Main Canal is 74 km long and water issues are divided as stage wise. Stage III & IV water issues start one month before stage II & IV water issues. Therefore, stage II & III works are having very less amount of off season to commence the work. These contracts are commenced with water issues for Yala and Maha seasons. Therefore,	Meaningful action need to be taken to extend the validity period of the performance bond

contractors are having limited off-seasons. At the moment, three contracts are almost completed. Remaining 4 packages will be completed by 31st December 2020.

- (c) Loss of Rs.1,797,120 incurred on Sellakataragama - Kirivehera Road Development Project valued at Rs.58.82 million, due to non-application of concrete to maintain the required density as stated in the Bill of Quantity. As a result, durability and quality of this road construction was not up to the standard as expected.
- Durability and quality of this road construction was not up to the standard.
- It is difficult to say this much of loss has already been happened by now, since project has paid only the mobilization advance up to now for the contractor. As highlighted by the Audit Report, DPD - Uva province has indicated that the depth of the concrete layer of shoulder is difficult to maintain at a even thickness of 150mm, due to undulation of the existing Asphalt layer of the road pavement (because the formation level should be maintain to the top level asphalt layer). But thickness of other end of the shoulder is properly maintained at the thickness of 150mm. For the purpose of billing the work done actual depth of
- Need to be instructed to the contractors to complete the work properly.

concrete layer is verified by using core cutting and actual work done will be paid accordingly.

The purpose of the currying concrete by using gunny bags or any other suitable material is to gain the strength of the concrete as expected. So the strength of insitu concrete will be tested by non-distractive test method and verified whether specified strength has been achieved.

The spacing of the tor steel bar has been changed in some places as a result of improper handling of the mesh at site for and tightening of bars. But the actual quantity of steel bars was used for the purpose.

Note: Although this activity should come under the Additional Financing of the project by oversight you have included same to the original financing Audit Report.