

Mahaweli Water Security Investment Programme -Tranche 01 - 2019

The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 01 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 Article 4.06 (a) of the Loan Agreement No.3267-(SRI) and Article 4.03 (a) of the Loan Agreement No.3268-SRI(SF) dated 17 September 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 Programme

According to the Loan Agreements of the Programme, the Ministry of Mahaweli, Agriculture, Irrigation and rural Development is the Executing Agency and Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agencies of the Programme. The objective of the Programme is to secure access to water resources for agricultural and drinking purpose in program area. As per the Loan Agreements, the estimated total cost of the Programme amounted to US\$ 190 million equivalent to Rs.28,713 million and out of that US\$ 150 million equivalent to Rs. 22,668 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 6,045 million is expected to be financed by the Government of Sri Lanka. The Programme commenced its activities on 17 September 2015 and scheduled to be completed by 31 December 2019. However, the date of completion of the activities of the Programme had been extended up to 30th June 2022.

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, 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. Physical Performance

2.1 Physical progress of the activities of the Programme

The activities of the Programme were expected to be implemented under 03 main components and the physical progress of the works is described as follows.

| Component | As at 31 December 2019 | | Audit Issue | Impact | Reasons for delays |
|--|---|---------------------------------|--|---|---|
| | Expected physical performance Percentage | Performance achieved Percentage | | | |
| Construction of Upper Elahara Canal | 60 | 38 | Delays in awarding of the contract and temporally suspension of the works by the contractors. | Delays in completion of works and possible increases of costs. | The activities under the contract were commenced with delays. |
| Construction of North Western Province canal | 65 | 30 | Delays in awarding a contract and slow progress of works implemented under other 02 contracts awarded. | The expected benefits will not be received to the stakeholders. | Due to short-comings of the designs of the works and issues on land acquisitions. |
| Rehabilitation of Minipe Left Bank | 74 | 48 | Slow progress on implementation of the activities of the contracts by the contractors. | The expected benefits will not be received to the stakeholders. | Due to short-comings of the designs of the civil construction works. |
| Response of the Management | Current progress of Construction of Upper Elahara Canal, North Western province Canal and Minipe Left Bank Rehabilitation Canal, 01 st May 2020 had reached 40%, 32%,62% respectively. | | | | |
| Auditor's Recommendations | The civil construction works to be completed under the contract packages need to be closely monitored as enable to complete the works in cost effective manner within the | | | | |

time frame stipulated by the Project.

2.2 Contract Administration

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---|--------------------------------------|--|--|
| <p>a) Eventhough Rehabilitation of Minor Tanks had not been included in the implementation schedule of the Mahaweli Water Security Investment Program, the allocation of Rs.200 million had been allocated in the budget for the rehabilitation of 50 Minor Tanks under the North Western Province canal project during the year under review. However, the total cost estimate for the rehabilitation of Minor Tanks had not been approved by the Secretary of the Line Ministry as per the 4.3.2 of the Procurement Guidelines. Further, the cascade system of the above tanks could be supplied with water diversion after completion of the ICB- 4 contract package of tranche-3 which had not been approved up to now.</p> | <p>Overrunning of contract cost.</p> | <p>Agreed subject to Remark Although, budgetary provision of Rs. 2,310 million was expected from National Budget Department, allocations were not received due to budgetary constraints. Therefore, Ministry of Mahaweli allocated Rs. 200 million to rehabilitate 50 minor tanks under Ministry budget. However, due to financial constraints only one tank was rehabilitated as a pilot project. A request has been made to Department of External Resources to sign the Tranche 03 loan agreement of MWSIP.</p> | <p>Action should be taken to minimize the additional works and costs thereon.</p> |
| <p>b) Out of the nine packages awarded under Mahaweli Water Security Investment Program – tranche 1, six contract packages had not been completed within the completion of contract period. The remaining three contract packages had not been achieved the expected progress. Further, NWPCP – ICB – 01 contract package scheduled to be awarded in 2017 had not been awarded</p> | <p>Overrunning of contract cost.</p> | <p>Agreed subject to Remark The work had not been completed due to delay of contract awarding, lengthy process of procurement, delay in getting clearance from ADB, liquidity problems of the contractor, suspension of the contract and the regular water issues and flood. NWPCP ICB 01 selected bidder, CML Pvt Ltd was at a financial crisis at the time of finalizing the contract. Cabinet</p> | <p>The programme should perform its activities according to the action plan for achieve its targets.</p> |

even as at 31 December 2019.

appointed tender board decided not to award this contract and retender. NWPC-ICB 01 contract is planned to award in the 3rd quarter of 2020.

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|----|---|-------------------------------|--|---|
| c) | Eventhough provision of Rs. 543 million had been allocated in the budget for the consultancy services, a sum of Rs.1,396 million which represent 157 per cent had been spent by exceeding the budgetary allocation for consultancy services during the year under review. | Overrunning of contract cost. | Agreed subject to Remark After obtaining the approval of the cabinet for variation 03, actions were taken to release the arrears consultancy payments of previous years. | Action should be taken to minimize Expenditure. |
|----|---|-------------------------------|--|---|

2.3 Observations made on site visits

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations | |
|-------------|--|-------------------------------|---|--|
| a) | Eventhough the period for the completion of the contract for rehabilitation works of Wemadilla Left Bank Main Canal and the construction of branch canals under construction of the North Western Province Canal was ended on 31 December 2018, rehabilitation works of the bridges, bathing steps and turnout structures remained in 60 locations had not been completed and the works on 24 locations had not been even started. The extension period of time for the completion of the works had been granted by another two years until 04 November 2020, due to conflicts on land disputes. | Overrunning of contract cost. | Agreed subject to Remark Rehabilitation works of bridges, bathing steps and turnout structures in 60 locations are in progress and will be completed by 15 July 2020. Work of 20 locations out of 24 locations have been started. Actions are taken to expedite the work. | The programme must minimize the unexpected delays and expenditure. |
| b) | Although contract for construction of Main Canal and tunnel from | Overrunning of contract cost. | Agreed subject Remark Physical progress as at 31 May 2020 has now achieved | The programme should perform its activities according |

Nabadagahawatta to Mahakithula Reservoir had been expected to 25 per cent physical progress as at 31 December 2019, only 6 per cent progress had been achieved. Eventhough various types of trees belong to the area of 3 km 600 m of Korakahagolla reserve had been removed, the construction of the canal had not been commenced up to 31 December 2019. Further, a sum of Rs.10 million had been allocated for the renovation and repairs of the Dewahuwa irrigation camp for the use of the Project. However, a sum of Rs.52 million had been spent for the rent expenditure and purchase of office equipment without being renovation and repairs of the above camp.

25%. Construction of the canal was already commenced. We will expedite the work to meet expected progress in the action plan.

to the action plan for achieve its targets.

Dewahuwa Irrigation Camp was not worth for repair due to its dilapidated condition and therefore the repair was not done. Accordingly Resident Engineer office was rented out and required office furniture was purchased as per the commitments of the consultancy contract agreement.

| | | | |
|---|--|--|--|
| <p>c) Although the expected physical progress on the Upper Elahara Canal ICB-01 contract package was 65 per cent, the actual progress was only 44 per cent as at 31 December 2019. Further, the construction work of 872 m in 5 locations had not been even commenced as at 31 December 2019.</p> | <p>Unexpected delays of project activities. It may be create an additional fund requirement. Further, it will also be effected to the agricultural activities.</p> | <p>Agreed subject Remark Current progress is 46% as at 31 May 2020. Actions have been taken to expedite the work according to the revised action plan.</p> | <p>The programme should perform its activities according to the action plan for achieve its targets.</p> |
|---|--|--|--|

2.4 Underutilized Resources

| <p>Audit Issue</p> | <p>Impact</p> | <p>Response of the Management</p> | <p>Auditor's Recommendations</p> |
|--|--------------------------------------|---|---|
| <p>Although office facilities had been provided to the Chief</p> | <p>Overrunning of contract cost.</p> | <p>Agreed subject to remarks Project sites were located</p> | <p>The programme must minimize the</p> |

Residential Engineer and Residential Engineer at the Polpithigama Project Office Building, three private buildings had been rented out at a cost of Rs.2,160,000 to provide office facilities during the year under review.

far away from the Polpithigama office. Buildings were rented to minimize the operational costs and to save long travel time. Once the existing sites are completed, they will be shifted to Polpithigama office. uneconomic expenditure.

2.5 System and Controls

| Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|--|--------------------------------|---|--|
| A sum of Rs.7,693,956 and Rs.8,730,545 had been spent for the overseas training courses during the years 2018 and 2019, eventhough the expenditure were not included in the revised training plan. | Overrunning of programme cost. | Agreed subject to Remark Training budgets were revised. Copies of the revised budget is attached. | Programme should follow the training plan. |