

Mahaweli Water Security Investment Programme -Tranche 02 – 2020

The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 02 for the year ended 31 December 2020 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 4.02 (a) of the Loan Agreement No.3625-(SRI) and Article 4.02 (a) of the Loan Agreement No.3626-(COL) dated 18 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank. 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 Programme

According to the Loan Agreements of the Programme, the Ministry of Irrigation 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 Agreement, the estimated total cost of the Programme was US\$ 242 million equivalent to Rs.43,734 million and out of that US\$ 210 million equivalent to Rs 37,951 million was agreed to be financed by Asian Development Bank. The balance amount of Rs 5,783 million is expected to be financed by the government of Sri Lanka The Programme commenced its activities on 23 July 2018 and scheduled to be completed by 31 December 2024.

1.3 Qualified Opinion

In my opinion, except for the effects for the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the program as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

The Interest and Commitment charges amounting to Rs.105,881,458 had been shown in the financial statement as financial charges. However detail of computation had not been submitted to audit, even though called for.

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 scepticism 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 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>a) Eventhough 89 percentage of progress had been expected only 52 percentage of progress had been achieved as at 31 December 2020 from the Construction of Kalu Ganga and Moragahakanda Transfer Canal (KMTC).</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>Not agreed subject to remarks The progress in 2020 had been badly effected with COVID-19 pandemic situation as local labours got infected and the travel restrictions were imposed for the China employees as well.</p>	<p>Action should be taken to minimize the unexpected delays in implementing of the construction works.</p>
<p>b) Eventhough Tranche 3 to be planned to implement from 2018 to 2024 approval had not been obtained from 2018 up to 31 December 2020. Therefore 8 contract packages under tranche 3 still not awarded.</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>As per Cabinet decisions, the necessary actions and negotiations are being carried out by the Department of Externa Resources and Asian Development Bank to singed the Tranche 3 loan agreement. However, the initial steps have been taken to evaluate and finalized the said contract packages.</p>	<p>Action should be taken to minimize the unexpected delays in implementing of the construction works</p>
<p>c) The consultancy service of Strengthening of Integrated Water Resources Management (SIWRM) planned to implement in 2019 – 2020, had not been implemented even up to 31 December 2020.</p>	<p>It may be badly effect to Water Resources Management activities and ultimate benefit of the programme.</p>	<p>The consultant has submitted the draft concept papers for this consultancy service. Due to the prevailing restrictions MWSIP could not conduct the National Workshop with key stakeholders and complement the GSOL vision. Anyhow, the consultant expect to confirm the scope of this study by 31st August 2021.</p>	<p>Action should be taken to implementing of the consultancy service according to relevant time period without delay.</p>

2.2 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>a) According to ADB aide memoire of mid-term review mission of tranche 2 and review mission of tranche 1 held on November/December 2020 it is currently estimated that around US\$ 400 million additional funds will be required to complete the investment program. However the program had failed to get final concurrence to the additional fund requirement discussed with the ADB as at 31 December 2020. Without final concurrence of additional funds, contracts had been awarded exceeding the approved loan amount. Hence fund shortages can be arise in future due to failed to arrange co-financing facilitator for US\$ 114 million as at 31 December 2020.</p>	<p>It may be create an additional fund requirement. also total activities of the program cannot be implemented and expected ultimate benefit of the program cannot be achieved.</p>	<p>The subject matter stated in your report was discussed with the Treasury officials including Secretary to the Treasury. After having several detailed discussions, Cabinet Papers were forwarded.</p>	<p>Program should be awarded the contracts within approved loan amount in the loan agreement. If exceeding the contract value of approved loan amount Program should be arranged the additional fund or minimize the program cost.</p>
<p>b) US\$ 306 million had been allocated for civil works component under Tranche 1 and Tranche 2. But the contracts amounting to US\$ 432 million had been awarded under tranche 1 and tranche 2. Therefore loan amount for civil works had been exceeded Over the approval limit by US\$ 126 million or 41 per cent.</p>	<p>It may be create an additional fund requirement.</p>	<p>As per Cabinet decisions, the instructions have been given to reschedule the Tranche 1 and Tranche 2 to accommodate unabsorbed expenses and future expected expenses and singed the Tranche 3 agreement according to available ADB fund of Tranche 1, Tranche 2 and Tranche 3 of the Program.</p>	<p>Program should be awarded the contracts within approved loan amount in the loan agreement. If exceeding the contract value of approved loan amount Program should be arranged the additional fund or minimize the program cost.</p>
<p>c) Action plan of 2020 had not been approved by the secretary of Line Ministry. Provision of Rs.10,000 million had been made available under that action plan, However Rs.16,627 million had been</p>	<p>unreliable information can be generated and badly effect to decisions making</p>	<p>Due to changing of the Ministries, time to time given supplementary allocations and leaving of the Monitoring and Evaluation Specialist as well</p>	<p>Action plan and progress report should be prepared base in correct figure and action plan and revised</p>

allocated from the treasury. In this regard revised action plan had not been approved. According to program progress report expenditure is Rs.10,447 million had not been reported. But the expenditure according to the treasury print out is shown as Rs.11,329 million. Therefore Rs.882 million difference had been observed between amount shown in the program progress report and treasury printout.

as changing of the Program Director, the initial Action Plan and revised Action Plan have not been forwarded to the Secretary for approval. Actions has been taken and advises given to the officers to avoid this situation in future. As per records maintained by the Program Management Unit the reported expenditure as at 31 December 2020 of Rs.10,447 million. was mentioned in the Progress Report. However, after closing of books of the Treasury, the final print out showed the expenditure was Rs.11,329 Mmillion. The difference is direct payments made by the ADB and which has not been taken to the books of accounts by the Program Management Unit. Such information was not received to the PMU when the Progress Report had been prepared.

action plan should be approved by the secretary of the line ministry.

d) Eventhough the contract had awarded in December 2020 cost of Rs.43,279 million UECP-ICB 02A contract package had not been included in 2020 Action plan.

Badly effect to the System and control activities

It is accepted, UECP-ICB-2A contract was not in the Action Plan. As per Government accelerated development program, on the recommendations of the high officials of the Government and subject to the Cabinet approval this contract was awarded.

Program should be followed the Action plan. action plan should be revised according to the current requirement with the relevant approval.

