

Climate Resilience Improvement Project (Additional Financing) - 2020

The audit of financial statements of the Climate Resilience Improvement Project (Additional Financing) Project 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 Section 4:09(b) of the General Conditions for Credits and Grants of International Development Association and article 1 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, the Ministry of Agriculture, Livestock Development, Irrigation and fisheries & Aquatic Resource Development, presently the Ministry of Irrigation is the Executing Agency of the project and the Department of Irrigation, Mahaweli Authority of Sri Lanka, and 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 improve the recipient's capacity to respond effectively to disasters. As per the Additional Financing Agreement, the estimated total cost of the Project was US\$ 42 million equivalent to Rs.6,048 million and entire amount was agreed to be financed by International Development Association. The Project had 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 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 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
01	According to paragraph 24 of Sri Lanka Public Sector Accounting Standards No. 01, the comparison of figures shown in financial statements with budget for the reporting periods should be disclosed separately. However those requirements had not been complied with	1,983.62	The Project, prepare Budget Estimates based on the Project Components. This is the practice adopted from the inception of the project since August 2014, and it was accepted by relevant authorities including the World Bank. Accordingly, comparative report including estimates and actual expenses is attached.	Financial Statement should prepare according to Public Sector Accounting Sanders requirements .
02	According to the Sri Lanka Public Sector Accounting Standards No 02 paragraph 18 as cash flow statements should be classified and reported as operational. Investment and finance activities and as defined in paragraph 21 to 32 under operational investment and financial activities. The cash flow statement presented with the above financial statements does not conform to the following identities on the basis of that classification. During the year under review Rs. 3,000,000 had been spent on project activities under GOSL funds and Rs.1,525,040,601 under World Bank	1528.04	According to the quarry, Rs. 3,000,000 was spent from the local fund and Rs. 1525,046,601 from the foreign fund. From the beginning of the project, the same format of cash flow statements submitted for audit were submitted for the year 2020. Necessary amendments will be include in the future financial statement of the project.	Financial Statement should prepare according to Public Sector Accounting Sanders requirements .

assistance. Large percentage of the above expenditure incurred was spent on development activities under the project. In preparing the statement of Expenditure in accordance with the above criteria mentioned in Sri Lanka Public Sector Accounting Standards No. 02, the amount of money spent on operational activities and investment activities in that expenditure had not been identified separately. As this above Rs.156,087,461 was identified investment activities and the remaining Rs.1,525,135,735 was identified as total investment in operational activities.

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| 03 | The advance account balance had decreased by Rs.143,865,494 during the current year and the other outstanding balance had decreased by Rs.12,317,101 Adjustment were made to the completed operational activities without distinguishing between the investment activities are the operational activities by complying with the criteria for the standards in the formulation of the cash flow statements. | 12.46 | Advance accounts and other balance of payments were presented in the Cash Flow statement in the same manner as submitted by the project for audit in Previous years. Financial Statement should prepare according to Public Sector Accounting Standers requirements |
| 04 | In accordance with paragraph 31 of the Sri Lanka Public Sector Accounting Standards | 3 | Arrangements will be made to allocate the expenses incurred from Financial Statement should prepare according to Public |

No.02, the amount of Rs .3 million spent by the government of Sri Lanka in the current year on GOSL funds had not been identified separately in the cash flow generate from financial activities.

the local fund in the Sector Accounting forthcoming Cash Flow Standers requirements Statements.

05 As no other disclosures were made under paragraph 59, 60, 61, 62 of the Sri Lanka Public Sector Accounting Standards No. 02, the relevant cash flow statements did not comply with the financial reporting requirements specified in the standard.

Action will be taken to include the amendments indicated by the audit in the Cash Flow Statements to be submitted for future audit by the project. Financial Statement should prepare according to Public Sector Accounting Standers requirements

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Management Response	Auditor's Recommendations
01	Although a sum of Rs. 4,544,430 had been paid for construction of the turf on both side of the left bank of the canal wall at the exit of Giants tank in Mannar, it was observed that although the surface of the bund should be 4 meters wide it was observed that surface of the bund had been constructed at difference widths. Hence possibility to damages as construction was not at the require standard.	Director of Irrigation Mannar has informed that contract were awarded in March 2017 and completed in March 2018. Accordingly, this work has been completed 03 years back by now. It is obvious that since Mannar district is extremely dry and grass pedali was dried up due to the severe drought prevailing in the area. Cattle and Goats farming and fisheries activities are the key livelihood activities of the local community in the	Action should be taken against relevant party

area. So under this situation prevention of cattle and goats moving along the bund road is unavoidable, therefore the bund road is naturally subject to erosion and this nature was accepted by the Director of Irrigation Engineer Mannar. Similarly director of irrigation engineer has informed under the operation and maintenance allocation of the Irrigation Department these eroded places of the bund road will be maintained by annually.

02 The price was quoted for the tank bund for the soil required for the Vellakaddu tank bund in Mannar was transported from a distance of 1.2 km from the tank bund but the soil used for the bund was obtained from the bottom of the tank bund. Also, the work item No 6.4 to the value of Rs. 659,214 had not been done.

Director of Irrigation Mannar has informed that suitable soil barrow fits for bund filling were selected in tank bed after tested in engineering lab. Even from the tank bed (barrow fits) the transport distance is acceptable. Also, item No 6.4 of the value of Rs. 659,214.00 was allocated for turfing in bund sides. That item were completed by the contractor, but maintaining of grass (watering) were not properly done in construction period and grass pedali were dried. Under this situation the due amount for the item were not paid.

Need to be instructed the contractors to complete the work properly.

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| 03 | Amount of Rs. 7,254,730 had been spent for the water supply scheme, Rs. 1,260,033 cultivation tanks and Rs. 4,962,931 the canal system for Rajanganaya Gami Isura Farmers Organization in 2018. However the tanks and water supply scheme, had not been used for purposed of the agriculture up to June 2021. | According to the divisional irrigation engineer now the farmer organization is using the lift irrigation system to get their water requirement in the dry days for their cultivation. However project management unit has decided to send team of officers and informed the latest situation after the field visit. | Need to be instructed the Contractors to complete the work properly. |
| 04 | A sum of Rs. 3,702,786 had been paid for the development of the 1000 Meter long road section of the on the Monarawana left canal bund road using soil, gravel and turf. However the audit observed that only 834 meters of the road had been developed and Rs.614.662 had been overpaid for the 166 meters not developed. | Reply is not submitted | Action should be taken against relevant party |
| 05 | In preparing the estimates for the reconstruction of the left and right canals of the Monarawana Anicut, 147.38 cubic meters were estimated for cutting the foundations at a hand rate of Rs. 1281 , but an additional amount of Rs. 167,191 was paid due to the cutting of the foundations using JCB excavator at a rate of Rs. 146.58. | Reply is not submitted | Action should be taken against relevant party |
| 06 | During the reconstruction of the Monarawana South Canal, estimate were prepared at a hand rate of Rs. 3,168.66 for quarrying of 225 m of canal, but at a mechanical rate of Rs. 1,468.88 were used for quarrying | Reply is not submitted | Action should be taken against relevant party |

of 119.18 m. As a result, Rs. 202,579 were over estimated and overpaid.

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| 07 | Amount of Rs. 4,015,856 was paid for 1639.125 cubic meters at a cost of Rs. 2,450 per cubic meter for applying gravel and reconstruction of 5511meters of the right bank canal bund of the Sddathissa Tank. 148.8 meters of gravel had not been applied at 10 places on the road and Rs. 108.430 had been paid for the unfinished work. | Reply is not submitted | Need to be instructed the contractors to complete the work properly. |
| 08 | Although the water and cultivation had been stopped during the construction period of the right bank canal of the Saddatissa Tank, Rs. 842,258 had been paid for the removal of water during the reconstruction of the canal for 2,216.47 hours . | Reply is not submitted | Action should be taken against relevant party |

3.2 Extraneous Activities/Payments made out of the Project objectives

No.	Audit Issue	Response of the Management	Auditor's Recommendation
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01	According to the information provided 109 contract packages at an amount of Rs. 4,075.95 million had been awarded by the Department of Irrigation, out of that 25 contract packages valued at Rs.1,187.50 million were not completed within the contract period and were pending period. The delay of these contract packages ranged from the period from 03	As indicated in the Audit Query it is observed that 25 contract packages awarded by Department of Irrigation under the CRIP funding, valued at Rs. 1,187.50 million without being completion within the specified contract period. Also delays of these packages are ranging from 03 to 24 months. This situation was occurred due to unforeseen weather conditions and lack of construction materials in the market such as steel, difficulty	Action need to be taken to complete the project activities according to the work plan. Proper estimate should be done to identified the reasons for delay before recommend to extend the project period.

months to 24 months.

of getting earth and gravel permits on time, difficulty of timely getting labour force under the travel limitations and lockdown situation imposed due to prevailing Covid-19 pandemic, these packages were not be able to complete within the contract period. Project too was given extension by the World Bank and GOSL due to impact of COVID-19. However time extensions were given to all these contract depending on the requirements and all the contact packages were fully completed by 30th April 2021 which is implementation completion date of the CRIP.

02 27 contract packages at valued at Rs. 1,083.20 million had been awarded to the Mahaweli Authority of Sri Lanka. Out of that 04 contracts packages valued at Rs.192.80 million were not completed without being completion within the contract period. The delay of these contract packages range from 08 months to 32 months.

It was mentioned that the 04 contract packages awarded by Mahaweli Authority of Sri Lanka under the CRIP financing, valued at Rs. 192.80 million were not completed within the contract period. Period of delay to complete these packages are ranging from 08 to 32 months. This situation was occurred due to unforeseen weather conditions and lack of construction materials in the market such as steel, difficulty of getting earth and gravel permits on time, difficulty of getting labour force under the travel limitations and lockdown situation imposed due to prevailing COVID-19 pandemic, these packages were not be able to complete

Action need to be taken to complete the project activities according to the work plan. Proper estimate should be done to identified the reasons for delay before recommend to extend the project period.

within the contract period. Project too was given extension by the World Bank and GOSL due to impact of COVID-19. However time extensions were given to all these contract depending on the requirements and all the contact packages were fully completed by 30th April 2021, which is implementation completion date of the CRIP.

03 17 Contract Packages valued at Rs. 1,931.75 million had been awarded to the Provincial Road Development (Uva), out of that 08 contract packages valued at Rs.1,012.50 million were not completed within the contract period.

It is mentioned that 08 contract packages awarded by Provincial Road Development Department (Uva) valued at of Rs.1,012.5 million were not completed within the contract period. Contractors couldn't able to find their labor force due to the impact of COVID-19 situation. That was the main reason for the delays and also unforeseen weather condition was also affected to the progress. All the PRDD contact packages were satisfactory completed by 31/12/2020.

Action need to be taken to complete the project activities according to the work plan. Proper estimate should be done to identified the reasons for delay before recommend to extend the project period.

04	<p>According to the information made available for audit 153 contract packages valued at Rs. 7,090.90 million awarded to contractors up to 31 December 2020. Out of that 03 contract packages valued at Rs. 182.18 million contracts had been terminated due to various reasons.</p>	<p>Number of nonperforming contract packages were terminated by implementing agencies due to various reasons, such as failures of contractors, to complete the assigned task as well as due to the nature of work due to continue of water issues and hence continuation of construction was difficult. But since the work needs to be completed as planned most of the works were re-estimated and re-awarded after following procurement process (i.e. CPs or Shopping). By now all the re-awarded works are completed. Actions have been taken against respective contractors who are failed to complete work as per the condition of contracts.</p>	<p>Action need to be taken to expedite the activities of the project to avoid extra time and costs</p>
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3.3 System and Controls

Audit Issue ----- -----	Management Response ----- -----	Auditor's Recommendations ----- -----
<p>As the Project is scheduled to be completed in 2021, the audit observed that it will adversely affect the achievement of the relevant objectives thereafter.</p>	<p>Upon completion of the project, the assets will be the assets of the relevant institutions and will be maintained by them. The project will also provide guidance on how to use those assets effectively for the purpose of those institutions.</p>	<p>The existence of assets must be confirmed.</p>