

Integrated Watershed and Water Resource Management Project - 2021

The audit of financial statements of the Integrated Watershed and Water Resource Management Project for the year ended 31 December 2021 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 provisions in the Loan agreement No: 6621-LK and 6619-LK dated 22 April 2021 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 Loan Agreement of the Project, the Ministry of Irrigation is the Executing Agency and Department of Irrigation, Mahaweli Authority of Sri Lanka, Northern Provincial Council, Eastern Provincial Council and Water Resources Board are the Implementing Agency of the Project. The objectives of the Project are to restore the Upper Mahaweli Watershed, strengthen institutional capacity for water resources management and enhance the functionality of water resources infrastructure. Functionally refers to improved safety of dams and improved water distribution networks for irrigation. The activities of the Project are implemented under four components namely Watershed & water resources management, Dam safety related infrastructure improvements, Contingency emergency response and project management. As per the Loan Agreement, the estimated total cost of the Project was US\$ 75.03 million equivalent to Rs. 14,199.43 million and out of that US\$ 69.53 million equivalent to Rs. 13,158.55 million was agreed to be financed by the International Development Association. The Project had commenced its activities on 13 May 2021 and scheduled to be completed by 31 October 2025.

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 2021, statement financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Generally Accepted 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 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Clause 3.2 of Chapter 4 of the Government Procurement Guidelines	The approved total cost estimate for the Project had not been submitted for audit.	Actions will be taken to forward these cost estimates to the Auditor in the future.	Proper coordination should be maintain with Line Agencies.
(b)	Clause 4.4 of Chapter 4 of the Government Procurement Guidelines	The Engineer estimate for Improvements work of the RB canal had been slicing without considering the criteria set out in the clause 4.4 of Chapter 4 of the Government Procurement Guidelines, Due to this slicing the management had taken opportunity to flow the procurement procedure by DPC without approval of the MPC base on the contract value. Value of contracts had increase due to general fixed item are duplicate in the both contract	The IA wanted to parallel. Implement these two packages and therefore the World Bank provided "No Objection" on the same.	Action should be taken for the violation and introduce internal control against this matter.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

According to the procurement plan, 53 packages are scheduled to be commenced in year 2021. However, only 16 packages had been awarded during the year under review. It was observed that the Project had failed to complete more than 65 per cent of the procurement plan.

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Two contract packages were awarded for the reconstruction of the RB canal of the Walawa project controlled by the Mahaweli Authority. However, the contractor did not carry out the construction work in accordance with the work plan. Furthermore, their work had	Actions will be taken if the contractor fails to fulfill the contractual obligations as per the agreement with reference to the performance guarantee.	Uneconomic value should be recovered from relevant party.

been suspended from 09 April 2022 without proper notice. Although the relevant documents show that there is a risk of the contractor stop the work, an advance and part payment of Rs. 170 million was allowed to be used by the contractor for other purposes. However, no action had been taken on the advance guarantee and performance guarantee as per the agreement.

- | | | | |
|-----|---|--|--|
| (b) | The Department procurement committee had decided to award the contract for improvement of Walawa RB 41 km Main Canal to a contractor without considering the 2.5% discount offers by other contractor. Further, The DPC had negotiate with second lowest bidders without negotiate with the lowest bidder. | After the arithmetical correction and discount (2.5%) given by M/S Finite Lanka (Pvt) Ltd, the corrected bid price of the M/S Weerasooriya Builders is Rs 525 million, which is lower than the corrected price of M/S Finite Lanka (Pvt) Ltd which is Rs. 528 million. | Action should be taken to ensure the transparency and consistency in bid evaluation process. |
| (c) | It was observed that details of construction management service had not finalized in the BOQ or at the negotiation stage, as result contractor had opportunity to limit services which are provided under this item up negotiated value. Therefore, the above negotiation had not been impact to evaluation and it was badly affected to the ensuring transparency and consistency in the evaluation and selection procedure. | According to the bid documents the list of key personnel were requested with the required qualification with no of positions required to carry out the smooth implementation of the project. | Action should be taken to ensure the transparency and consistency in bid evaluation process. |
| (d) | Although the contracts which are operated under the Department of Irrigation had been awarded on 20 November 2021, the contractor had refused to sign the Letter of Acceptance. However, the PMU had not taken legal action accordingly until the expired of the bid bond. | The environment and safeguard unit visited the site during April 2022 and observed these conditions at site. The team instructed the contractor to take necessary measures to mitigate the risks foreseen. | Uneconomic value should be recovered from relevant party. |

3.3 Observations made on site visits

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The engineer had approved IPC No 01 for 02 contracts of improvements to Walawa RB 41 km main canal amounting to Rs. 22.4 million. It was observed at the physical inspection that most of construction work had become a wasteful, due to suspension and contractor had not taken action for safe guard the work site and mitigates the environmental impact. It was badly affected to the people who travel on the canal bund road.	The environment and safeguard unit visited the site during April 2022 and observed these conditions at site. The team instructed the contractor to take necessary measures to mitigate the risks foreseen.	Action should to be taken to safe guard the work site and mitigate the environmental impact and uneconomic value should be recovered from relevant party.
(b)	Although a sum of Rs.2.8 million and Rs. 3 million had been paid for material at site under IPC No. 01 respectively, all the materials are stock on the canal bund road informally and most of rubble quality are poor than expected quality.	Will inform the Engineer to reconfirm the quality of the material and necessary actions will be taken during next IPC.	Action should to be taken to safe guard the work site and mitigate the environmental impact and uneconomic value should be recovered from relevant party.