Mahaweli Water Security Investment Programme - Tranche 1 - 2024

--

The audit of financial statements of the Mahaweli Water Security Investment Programme - Tranche 1 for the year ended 31 December 2024 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 4.06 (a) of the Loan Agreement No. 3267-SRI and Section 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 reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Programme, the Ministry of Irrigation is the Executing Agency and Sri Lanka Mahaweli Authority and Department of Irrigation are the Implementing Agency of the programme.

The objective of the programme is secure access to water resources for agricultural, drinking and commercial purpose in programme area. The activities of the programme are implemented under three components namely North Central Province Canal Project, North Western Province Canal Project, Minipe Left Bank Canal Rehabilitation Project.

As per the Loan Agreement, the estimated total cost of the programme was US$ 190 million equivalents to Rs. 26,720.80 million and out of that US$ 150 million equivalents to Rs. 21,095.37 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 5,625.43 million is expected to be financed by the Government of Sri Lanka.

The Programme had 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 30 June 2025.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the programme as at 31 December 2024, 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

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 Programme’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 programme.

- 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

	Accounting Deficiency	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	Assets worth of Rs. 56,770,846 purchased by contractors for the Mahaweli Water Security Investment Programme had not been amended and shown in the financial statements. As a result, the assets shown in the statement of financial position had been understated by similar amount.	56.77	The assets of the Minipe and North Central units will be recorded in the 2025 financial statements after verification.	Assets should be accounted.
(b)	The equity balance as per the statement of financial position was Rs. 53,528 million. However, as per the statement of changes in equity it was Rs. 54,972 million. Hence, a difference of Rs. 1,444 million observed between two balances.	1,444	Advance balances (CB & Sub imprest) and considered as liability and it was excluded in the statement of financial position the statement of changes in equity will be adjusted in year 2025 statements.	PMU should accurately record the figures in the financial statement.

2.2 Non Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
(a)	The provisions of Articles 8.2, 8.7 and 10.2 of the International Procurement Code	The construction work of the main canal from Nebadagahawatte to Maha Kithula entrance tunnel, with a contract value of Rs. 7,226.62 million, had been	Construction of the main canal from Nabadagahawatta to the Mahakithula Reservoir inlet tunnel (chainage 5+250 km to 22+300 km). In compliance with	The PMU should comply with the provision of Articles 8.2, 8.7 and 10.2 of the International Procurement Code.

awarded to a company. According to the provisions of section 10.2 of the International Procurement Code (FIDIC), 13 certificates of acceptance of works in parts were issued in respect of this contract package (NWPCP – ICB 2) prior to the completion of the works. In order to issue Taking Over Certificates in parts under 10.2 of the International Procurement Code, the completed part of the work should be in a usable condition, but this part of the canal was in an unusable condition. The audit observed that due to the issuance of the package Taking Over Certificates before the completion of the whole work, the delay charges that could have been levied for non-completion of the work in the bill of quantities by the due date, as per Section 8.7 of the contract agreement, could not be recovered. Furthermore, the audit observed that

FIDIC Sub-Clause 10.2, Taking-Over Certificates (ToCs) were issued for the works together with the relevant punch lists. By the Final Completion Date of 16 May 2024, a total of 14 ToCs had been issued. Subsequently, 2 further ToCs were issued after the Contract Completion Date, with delay damages imposed on the Contractor pursuant to Sub-Clause 8.7.

the late fees of Rs. 722.46 million could not be recovered for the period from May 17, 2024 to December 31, 2024, at the rate of Rs. 3.4 million per day. However the maximum amount of delay damages should be 10% of the contract price as stipulated in conditions 14.15 (b) of the contract.

3. Physical Performance

3.1 Physical progress of the activities of the Programme

Components	As at 31 December 2024		Delay/ Audit Issue	Responses of Management	Auditor's Recommendation
	Expected physical performance Units/ percentage	Performance achieved Units/ percentage			
Overall Progress (T1,T2 & T3)	91%	19.6%	As at 15 December 2024, the expected overall progress in the program (T1, T2, T3) was 91%, but the actual progress observed on that day was 19.6%. However, in the project, it was indicated that the expected physical progress of MLBCRP – Package 6 was 40%, but the actual physical progress was at a	However, only 13 of these packages are being implemented due to various delays and obstacles. As of 31 December 2024.	Action should be taken to achieve expected performance.

level of 10%. As well as 100% physical progress was expected for the UECP – ICB – 1 package, the actual progress observed on that date was 64%.

3.2 Delay in Completion of activities of the Project

Audit Issue	Date scheduled to be completed	Date Completion	Delay year	Responses of Management	Auditor’s Recommendation
The NWPCP ICB – 01 contract, was canceled on May 26, 2023 and as of that date, the construction progress was at 3%. Accordingly, the amount of Rs. 74.71 million paid for the contractor's general requirements had become a sunk cost. Additionally, Rs. 139.11 million paid to the consultant is deemed wasteful. Although the Contract Engineer certified a total loss of Rs. 53.63 million under clause 15.4 of the agreement, no supporting documents were provided for audit, and no recovery action has been taken. Furthermore, Rs.9.33 million spent for the period of September 2023	March 27, 2024	Terminated	Terminated on March 27,2024	The contract that began on March 31, 2021 included initial site setup works costing Rs. 71.77 million. Following termination, the final contract loss was determined as Rs. 53.63 million under clause 15.4, with Cabinet approval sought for payment. A new contractor will be appointed to complete the balance work.	The PMU should ensure the validity of calculation of loss and recover the loss.

	to March 2025 on security services for site is also considered wasteful.		

3.3 Contract Administration

	Audit Issue	Responses of Management	Auditor's Recommendation
(a)	For the NCPCP – 3, NCPCP – 5, and UECP – ICB - 2A packages, a total of 622 land lots were to be acquired. Out of these land lots, a total of 501 lots have been compensated by 10 December 2024. The Audit observed that the balance of 121 lots is to be compensated at the December 2024.	Out of 622 land lots required for the NCPCP, only 57 remain for compensation as of 30.05.2025 (down from 121 on 31.12.2024).	The PMU should immediately acquire the remaining land lots properly.
(b)	During the construction of the North Central Province Maha Ela Project, a sum of Rs. 6 million had been allocated for the construction of a beat office (field office) (2016). In 2023, an engineering estimate based on Central Province rates was prepared at Rs. 39.21 million. However by following national competitive bidding, a qualified contractor was awarded the contract in late 2024 for Rs. 28.50 million. Due to the change in the original plan, the cost increased by 375%, exceeding the original estimated amount by Rs.22.5 million. As a result, awarding this contract for Rs.28.5 million.	A contractor was awarded the Rs. 28.50 million contract in late 2024. The Department of Wildlife required a range office instead, and the revised design and contract were approved by the Asian Development Bank.	The project must complete the contract package as planned.

3.4 Identified Losses

Audit Issue	Response of the Management	Auditor's Recommendation
The programme had incurred a commitment charge due to underutilization of allocation fund for the period from 2016-2024 amounting of Rs.118.59 million as at 31 December 2024.The end of 2024, it remained unutilized, resulting in commitment chargers of Rs.1.4 million being incurred during the year reviewed.	Agreed. The project performance was slow due to various reasons. Such as, COVID – 19 pandemic, 2022 economic crisis and delayed decision making.	Strong financial control and activities should be performance accordance with the plan.