

Mahaweli Water Security Investment Programme Tranche 01 - 2020

The audit of financial statements of the Mahaweli Water Security Investment Programme –Tranche 01 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 4.06 (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 (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 Agreements, the estimated total cost of the Programme was 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 had commenced its activities on 24 June 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 2022.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme 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 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. 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	<u>As at 31 December 2020</u>		Audit Issue	Impact	Reasons for delays
	Expected physical performance Percentage	Performance achieved Percentage			
Construction of Upper Elahara Canal	87	55	Temporally suspension of the works by contractors and slow progress of an awarded contract.	Unexpected delays of project activities. It may be create an additional fund requirement. Further, it will also be effected to the agricultural activities.	The activities under the contract were commenced with delays.
Construction of North Western Province canal	81	47	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	100	71	Slow progress on the 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 May 2021 had reached 59%,55%,79% 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) Contract period for the improvements to Wemadilla Left Bank Canal and construction of new sluice and tail canal under construction of the North Western Province Canal should be ended as at 27 December 2018. Time extension had been granted up to 6 January 2021. However out of expected physical progress of 100 per cent, 92 per cent had been achieved as at 31 December 2020. Sum of Rs.154.6 million Contract variations had been observed weaknesses in designs and estimates preparation</p>	<p>Overrunning of contract cost.</p>	<p>By 30 April 2021 the contract period completed, with the physical progress of 95 per cent. With the ongoing water issues, the contractor was given concessionary period to complete all the physical works by 30 August 2021. This was taken as advance contract packages of MWWSIP in which the design and estimates were done by the Mahaweli Consultancy Bureau. The contract was awarded in 2016 while construction was going on with several requirements which were identified with the request of Irrigation Department and farmer organizations hence design changes encountered with variations.</p>	<p>Action should be taken to minimize the contract variations</p>
<p>b) Main canal from Nabadagahawatta to Mahakithula Reservoir inlet tunnel under construction of the North Western Province Canal had been expected 93 percent physical progress as at 31 December 2020, However only 41 percent of the progress had been achieved. According to the Consultant progress report, the Contract value of Rs 7,226.6 million had been increased to Rs.1,413 million due to estimated quantities were exceeded.</p>	<p>Overrunning of contract cost.</p>	<p>In the initial stage, the contractors have not mobilized properly as planned. Several discussions were held to improve the availability of Labour and machinery as well as deployment of key personals to the site. Some delays were occurred in land acquisition process, especially for the 10 nos. of land lots still remains at the Land Acquisition Appeal Board since 2018. Some design changes were done to accommodate the structures within the right of way and in the Wildlife areas which resulted in the estimate quantity increased.</p>	<p>Action should be taken to minimize the contract variations</p>

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| <p>c) The construction of Upper Elahara Canal from 0+100 km to 3+860 km under construction of the Upper Elahara Canal should be completed as at 8 January 2020. Expected physical progress was 95 per cent, however the actual progress was only 63 per cent as at 31 December 2020. According to the Consultant progress report, the Contract value of Rs.3,742 million had been increased to Rs.658.5 million due to estimated quantities had been exceeded.</p> | <p>Overrunning of contract cost.</p> | <p>This contract was awarded on 11 November 2016 to CML-MTD Construction Ltd, and the original Completion of the project was 08 January 2020. The original Contract price was LKR 3,742 million. While continuing the construction work it was noted that the quantities of following items were to be increased due to the following reasons. Rock excavation - as per the actual site condition which has not been discovered due to limited site investigation done prior to the cost estimation.</p> | <p>Action should be taken to minimize the contract variation</p> |
| <p>d) Contract period of rehabilitation of Minipe Left Bank Canal - Stage 1 under construction of Minipe Left Bank Canal Rehabilitation should be ended as at 13 October 2018. The contract period had been extended up to 20 December 2020 as failure of the contractor had not been complete the construction work within the contract period. Contract amount of Rs408.6 million had been increased up to Rs 568.6 million on 40 per cent due to scope changes of contract. Eventhough time extension ended on 20 December 2020 construction works had not been completed. Up to now out of expected 100 percent physical progress as at 31 December 2020, 97 percent progress had been achieved.</p> | <p>Overrunning of programme cost</p> | <p>This contract will be completed by next water closer period on August 2021.</p> | <p>Action should be taken to minimize the contract variation</p> |
| <p>e) Contract period of rehabilitation of Minipe Left Bank Canal - stage 3 under construction of Minipe Left Bank Canal Rehabilitation should be ended as at 26 April 2019. The contract period had been extended up to 20 October</p> | <p>Overrunning of programme cost</p> | <p>Physical progress is 86 per cent up to 31 May 2021. Remaining balance works will be completed after next water closer period on August 2021 to October 2021.</p> | <p>Action should be taken to acceleration the construction works</p> |

2020 due to failure of the contractor completes the construction work in contract period. But works had not been completed within the extension period. Actual physical progress is only 75 per cent as at 31 December 2020.

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| f) | Contract period of heightening of Minipe anicut including water control and measurement facilities under construction of Minipe Left Bank Canal Rehabilitation should be ended as at 12 November 2020. The contract period had been extended up to 7 January 2021 due to failure of the contractor complete the construction work within the contract period. However works had not been completed within the time of extension period. Actual physical progress is only 50 per cent as at 31 December 2020. | Overrunning of program cost | The Physical progress is 61per cent up to 31st May 2021. This contract is planned to complete on 31st December 2021. | Action should be taken to acceleration the construction works |
| g) | The consultancy service of Improving System Efficiencies and Water Productivity (ISEWP) had been planned to implement in 2015 – 2017 had not been completed even up to 31 December 2020. | It may be badly effect to Water Resources Management activities and ultimate benefit of the programme. | The ISEWP consultancy service was planned to be implemented in 2015 – 2017. However, due to unavoidable reasons, the consultancy has been awarded in 18th October 2018 and it will be completed 2020 as per singed agreement. | Action should be taken to implementing of the consultancy service according to relevant time period without delay. |
| h) | The Programme should prepared minimum 03 years master Procurement plan and detail Procurement plan for the next year. but the Programme had not been prepared a master Procurement plan and detail Procurement plan. | Project objectives can't be achieved. | 18 Month Procurement plan had been included in Facility Administration Manual. It is being updated up to now and detail Procurement plan will be prepared for next year. | Action should be taken to prepare detail Procurement plan for next year. |

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| i) | Chief residential engineers and residential engineers had been provided office facilities at the Polpithigama Project Office Building, three private buildings had been rented out of a cost of Rs.2,160,000 for the period of the year under review. | Overrunning of programme cost. | Project sites were located 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. | The programme must minimize the uneconomic expenditure. |
| j) | Proper accounting information system had not been maintained by the North Western Province Canal project Office or Programme Management Unit regarding to the amount paid to the District Secretary and Divisional Secretariat for paying compensation for the land and the balance of it. There was a difference of Rs.21.4 million between the project Accounts and the Galewela Divisional Secretariat Accounts as at December 2018. The reasons for that difference had not been disclosed to the audit as at 20 January 2021. | Expenditure of financial statement had been Over stated. | The reconciliation for the difference will be prepared within 2 weeks and submitted to the audit. | Reason for Difference should be submitted to the audit as soon as possible. |
| k) | Eventhough it was expected to acquire 741 Plots of Lands in relation to the Upper Elahara Ela Project on 31 December 2020, no any Plots of Lands had been acquired as at 31 December 2020. Further 961 Plots of Land were expected to be acquired in connection with the North Western Province Canal Project and 947 Plots of Land had been acquired as at 31 December 2020. However no any Plots of Land had been registered under the section 44 of the Land Acquisition Act as at 31 December 2020. | Delay the Project activities | Initially 941 plots of land lots were identified but now the number of plots of land lots has been reduced to 741. The main reasons for this was that the original measurement of the land acquisition Act (Section 2) included the government –own-identified land lots from the Land Acquisition. Although the compensation process has now reached its final stage, the land acquisition process for which several line agencies in different ministers are involved, seriously affects the delay of the compensation process. | Action should be taken to accelerate the land acquisition activities. |

2.3 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>a) Program had not been replenished the Imprest Fund Accounts timely. As at the 31 December 2020 imprest Account No 3267 balance is only US\$ 458 and 3268 Account balance is only US\$ 821. Therefore Program failed to made the contract payment within due dates. Contractors had been charged the finance charge of Rs.8,696,899 on delayed payment up to 30 November 2020.</p>	<p>Finance charges can be charged on delayed payment of contract.</p>	<p>The request was made by the contractors have not been analyzed by the consultant yet. After the recommendation of the consultant the action will be taken. The reason for this was non releasing of imprest by the Treasury in time under the Finance Code No. 17.</p>	<p>Program should be replenished the imprest fund accounts timely and contract payment should be made in due date without delay.</p>
<p>b) Payment of US\$ 81,100.29 had been made for an invoice value of Euro 81,100.29 by withdrawal application No 387. However the evidence for computation of the invoice were not made available for audit.</p>	<p>Under or Over payment can be made.</p>	<p>All computations regarding withdrawal application No. 387 is available for Audit.</p>	<p>All payments should be made according to correct invoice and relevant currency</p>