

Climate Resilience Improvement - 2020

The audit of financial statements of the Climate Resilience Improvement 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 dated 31 July 2010 of International Development Association and in Section II c of the schedule 2 of the Financing Agreement No. 5417 LK dated 10 July 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. This report consists of the matters observed during the course of audit and submitted for the consideration of the Executing and Implementing Agencies of the Project. 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, then 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, Road Development Authority and National Building Research Organization 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 Financing Agreement, the estimated total cost of the Project was US\$ 111.8 million equivalents to Rs. 14,617 million and out of that US\$ 110 million equivalents to Rs 14,382 million was agreed to be financed by International Development Association. The Project had commenced its activities on 05 August 2014 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiency / Audit Issue	Amount Rs.	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	1891.94	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 Standers 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	1890.34	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 should prepare according to Public Sector Accounting Standers requirements .

not conform to the following identities on the basis of that classification.

financial statement of the project.

(a) During the year under review Rs. 7,000,000 had been spent on project activities under GOSL funds and Rs.1,883,342,078 under World Bank assistance. Large percentage of the above expenditure incurred was spent on development activities under the project. In preparing the e 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.205,084,804 was identified investment activities and the remaining Rs.1,772,663,385 was identified as total investment in operational activities.

(b) The advance account balance 141.20 had decreased by Rs.114,303,586 during the current year and the other outstanding balance had decreased by Rs.26,897,246 Adjustment were made to the

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 Sanders requirements

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.

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| <p>(c) In accordance with paragraph 31 of the Sri Lanka Public Sector Accounting Standards No.02, the amount of Rs.7 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.</p> | <p>7</p> | <p>Arrangements will be made to allocate the expenses incurred from the local fund in the forthcoming Cash Flow Statements.</p> | <p>Financial Statement should prepare according to Public Sector Accounting Sanders requirements</p> |
| <p>(d) As no other disclosures were made under paragraph 59, 60, 61, 62 of the Sri Lanka Public Sector Standards No. 02, the relevant cash flow statements did not comply with the financial reporting requirements specified in the standard.</p> | | <p>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.</p> | <p>Financial Statement should prepare according to Public Sector Accounting Standers requirements</p> |

3. Physical Performance

3.1 Contract Administration

No.	Audit Issue	Response of the Management	Auditor's Recommendation
01	According to the information provided, 443 contract packages at an awarded amount of Rs.5,488.91 million had been awarded by the Department of Irrigation, out of that 382 contract packages at end of the year under review were completed as at 31 December 2020. 27 contract packages valued at Rs. 286.04 million without being completion within the contract period. Delays of these packages a ranging from 01 month to 35 months	As indicated in the audit query it is observed that 27 contract packages awarded by Department of Irrigation under the CRIP funding, valued at Rs.286.04 million without being completion within the specified contract period. Also delays of these packages are ranging from 01 to 35 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 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	Action need to be taken to complete the project activities according to the work plan. Proper estimate should be done to identify the reasons for delay before recommend to extend the project period.

extensions were given to all these contract depending on the requirements and all the contract packages were fully completed by 30th April 2021 which is implementation completion date of the CRIP

02 According to the information provide 86 contract packages valued as Rs. 1,525.94 million had been awarded to the Mahaweli Authority of Sri Lanka, out of that 82 contract packages at end of the year under review were completed as at 31 December 2020. 04 contract packages valued at of Rs. 203.80 million were not completed within the contract period. Period of delay to complete these packages are ranging from 32 months to 47 months.

It was mentioned that the 04 contract packages awarded by Mahaweli Authority of Sri Lanka under the CRIP financing, valued at Rs.203.80 million were not completed within the contract period. Period of delay to complete these packages are ranging from 32 to 47 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 within the contract period. Project too was given extension by the

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.

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 32 contract packages valued at Rs. 5,297.25 million had been awarded to the Road Development Authority, out of that 17 contract packages at end of the year under review were completed as at 31 December 2020. 6 contract packages valued at of Rs. 1,880.90 million were not completed within the contract period of delay to complete of these packages ranging from 06 months to 46 months.

It is mentioned that 06 contract packages awarded by Road Development Authority under the CRIP funding, valued at of Rs.1,880.90 million were not completed within the contract period. Period of delay to complete of these packages ranging from 06 to 46 months. Some of the largely delayed packages are land slide mitigation work sites. Under the frequent weather changes badly affect to construction of such land slide mitigation works in Landslide prone areas (i.e. Haggala Landslide) This situation was occurred due to unforeseen weather conditions and lack of special materials due to import restrictions such as

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.

protective nets etc., 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 packages appropriately, depending on the requirements and all the contact packages were satisfactorily completed by 30th April 2021, which is implementation completion date of the CRIP.

04 According to the information made available for audit 631 contract packages valued at Rs. 13,634.98 million awarded to the contractors up to 31 December 2020, out of that 15 packages valued at 230.42 million contracts had been terminated up to now due to various reasons

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, difficulty of land acquisition and hence continuation of construction was difficult. But since the work needs to

Action need to be taken to expedite the activities of the project to avoid extra time and costs

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.

3.2 Observations made on site visits

No	Audit Issue	Response of the Management	Auditor's Recommendation
01	Sample test required to be carry out in accordance with paragraph 32.1 of the Procurement Register, However a sum of Rs. 42,494,417 spent for laying gravel on the left bank 2 of the Muthur Ellai Scheme on the canal embankment of the main canal and the road on the canal bank of the main canal on the right bank, no investigation report had been obtained. Further it was observed in site visits that these contracts were not properly done and many places were in dilapidated condition.	According to Director of Irrigation Trincomalee, all the soil investigations work has been done as per the specifications available with them. This work has been completed about two years back. After that unauthorized sand transporting were being carried out by large tippers throughout the year and even now. This situation was informed/ complained to the Muthur Police Station by Director Irrigation, Trincomalee but the sand transporting activity was not able to controlled and stopped until now. This is the reason for largely damaging to the road as indicated in the audit query	Damages should be recovered from relevant party

- 02 The road on the right bank RBMC bund road in Allai scheme Uneconomic value canal bund of the Allai scheme According to information provided by Director should be recover in 0+750m to 15+000m of Irrigation Trincomalee, this work has been from relevant party section were developed at a commenced in March 2017 and completed by cost of Rs. June 2018 under the CRIP funding through the 19,298,754 under this project contract CRIP/WORKS/ID-TRI/NCB/231-1. After completion of CRIP construction under in June 2018. However in the the above contract in mid 2020 (after 2 ½ years of the completion of the CRIP works). above road 1+950m to Irrigation Department has given permission to 3+050m section had been provide carpet for 400m length out of 14.0 km, carpeted and 5+400m to on the strong request of the community in the 5+800m section had been area. concreted under another development project in July 2020 . Hence the amount spent under this project for the development of this road considered as wasteful expenditure.
- 03 The road on the main canal According to information provided by Director Uneconomic value bund of the Allai Scheme of Irrigation Trincomalee, this work has been should be recovered (Vendrason Main Canal Bund comenced in April 2017 and complited by from relevant party. Road) in 0+00m to 2+950m March 2018 under the CRIP funding through section were developed at a the contract CRIP/WORKS/ID-TRI/NCB/221. After finishing this work under the CRIP cost of Rs. 4,381,360 under project, the local communities used this road this project in March 2018. for their day to day works. In 2019 a new However in the above road program called “Sirisara Pivisuma” identified 0+100m to 2+950m section part of this road nearly about 1.0 km length out had been carpeted under of 2.95 km to be carpeted. At the time of “Sirisara Pivisuma” development project in 2019 . initiating CRIP construction under the above Hence the amount spent under contract there was no such indication regarding this project for the the intervention of “Sirisara Pivisuma” development of this road program. considered as wasteful expenditure.

- 04 The new road of the Pakikiranvetti on Kanthle in 0m to 1+020m section were developed at a cost of Rs. 4,895,354 under this project in October 2019. However in the above road 0+00 m to 0+100m section had been concreted under another development project in September 2020 . Hence the amount spent under this project for the development of this road considered as wasteful expenditure.
- According to information provided by Director of Irrigation Trincomalee, this work has been comenced in June 2017 and completed by July 2018 under the CRIP funding through the contract CRIP/WORKS/ID-TRI/NCB/222-2. Total length of the road is about 1.0 km. In 2019, the Kanthale Pradeshiya Sabha identified 100m length form min road to the canal bund for concreting and they have completed that selected works. There was no indication that Pradeshiya Sabha involvement on part of the road concreting at the time of commencing the CRIP works under the above contract in 2017.
- Proper coordination should be maintained with line agencies.
- 05 Even though two culverts in Kantale peraru track had been constructed at a cost of Rs.468,285 those two culverts had not been used over two years due to the relevant roads had not been constructed up to now
- At the identification stage, the farmer organization has requested to provide them only two culverts and they agreed to form the road by themselves using their own labour using participatory approach. Therefore the estimations were done only for construction of two culverts by Department of Irrigation. Due to prevailing COVID-19 Pandemic situation and it's impacts to the people, and financial difficulties the work may not have been done yet, using their own labour.
- Construction work of the road should be completed.
- 06 According to the original plan for the construction of the side wall of the Kusumankadawala canal in Kantale, the upper part of the wall should be 0.6m wide, it was observed in field inspection that the top of the wall was constructed at 0.45m wide only
- Estimations were done for the height of 0.6m to this side wall. But during the construction the height was reduced to 0.45m to comply with the site conditions. The payments were done according to the actual measurements and no any additional payments made beyond the actual work done
- Instruction should given to the officers to prepare the estimate with proper attention of site condition.

3.3 System and Controls

No.	Audit Issue	Management Response	Auditor's Recommendations
01	A computer software system had been introduced at a cost of Rs.7.4 Million for the accounting of the project however the relevant operation manuals had not been prepared and no action was taken up to now to provide access to the activities and to understand specific information of the software.	Project MIS was developed to manage project information to collect, store, process and generate reports based on the pre-described formats and customized format to support project management and M&E. The project MIS is consisted of several modules namely financial management, procurement, contract management, assets management, payroll management, and monitoring and evaluation. For each module, detailed operational manuals were prepared to provide operational guidance and technical insight on specific functions to make use of the different interfaces for data entry, processing, and report generation. Several interactive training programs were conducted by the consultant for the MIS users.	The software system should utilized for manage Project Activities. Operation manual should be obtained and Action should be taken to handed over. Software system to relevant authority at the end of the project
02	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.	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.	The existence of assets must be confirmed.