

## **Mahaweli Water Security Investment Programme Tranche- 02 -2021**

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The audit of financial statements of the Mahaweli Water Security Investment Programme- Tranche 02 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 Article 4.02 (a) of the Loan Agreement No.3625-(SRI) and Article 4.02 (a) of the Loan Agreement No.3626-(COL) dated 18 May 2018 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**

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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 Programme area. As per the Loan Agreements, the estimated total cost of the Programme was US\$ 242 million equivalent to Rs.43,734 million and out of that US\$ 210 million equivalent to Rs 37,951 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.5,783 million is expected to be financed by the government of Sri Lanka. The Programme had commenced its activities on 23 July 2018 and scheduled to be completed by 30 June 2024.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2021, 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**

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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**

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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

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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 the Programme's internal control.
- 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 Contract Administration

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a) The UECP-ICB-2B package was scheduled to be completed by 10 September 2021 and extended up to 28 May 2022. However, its physical progress was only 70 per cent as at 31 December 2021.	In 2020 and 2021 several waves of various Covid 19 variants hit the country and the government-imposed travel restrictions through curfew and country lockdowns.	Action should be taken to minimize the contract variations.
(b) Though the construction of the Mahakitula inlet tunnel, Mahakitula and Mahakirula reservoirs and the feeder canal from Mahakitula and Mahakirula reservoirs under North Western canal was expected 23 percent of physical progress as at 31 December 2021, only 3 percent progress had been achieved.	The contractor has not performed well, due to the absence of qualified & experienced staff for senior positions, supervisory level and quality controlling staff as well as communication gap exists.	Action should be taken to minimize the contract variations.
(c) Eventhough Tranche 3 is to be planned to implement from 2018 to 2024, the approval had not been obtained up to 31 December 2021. Therefore, 09 contract packages valued at Rs. 74,470 million under Tranche 3 have not awarded yet. Among them, 05 contract packages were planned to implement during 2021. However, commitment charges Rs. 48 million had been paid for the year under review.	The special Administrative mission, AIDE Memoire held on 2 November – 11 December 2020 has specifically mentioned that Tranche 3 implementation base on the disbursement-based processing which means that processing of Tranche 3 will be triggered when approximately 75 percent of Tranche 2 has been disbursed.	Action should be taken to minimize the contract variation.
(d) The consultancy service of Strengthening of Integrated Water Resources Management (SIWRM) that had been planned to implement in 2019– 2020, had not been implemented even up to 31 December 2021 and also that project had not been included to the Action Plan in 2021.	After several rounds of discussions with stakeholders and Lending Agency Draft TOR is finalized now and expected to complete procurement by end of 2022. The study will be completed by end of 2024.	Action should be taken to implementing of the consultancy service according to relevant time period without delay.