

Climate Resilience Improvement Project - period from 01 January to 15 October 2021

The audit of financial statements of the Climate Resilience Improvement Project for the period from 01 January to 15 October 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 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. 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 equivalent to Rs.14,617 million and out of that US\$ 110 million equivalent 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. However, the date of completion of the activities of the Project had been extended up to 15 October 2021

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 15 October 2021, statement of expenditure and its cash flows for the period 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. Physical Performance

2.1 Contract Administration

No.	Audit Issues	Management Responses	Auditor's Recommendations
(a)	The implementation of the project was carried out under four main components by five Implementation Agencies. According to the financial statement capital works with a value of Rs. 11,830 million are identified under non-current asset. Although project had winding up on 15 October 2021,	The total project expenditure of the CRIP project is accounted as capital expenditure under the treasury accounts. There is not necessary to account this value by the respective IAs again.	The register should be maintained as to the assets could be handed over to the Project Implementing Agency at the end of the Project.

action had been taken to hand over those 728 numbers construction works to the relevant institutions formally. There for it is unable to certified that above capital asset are formally accounting as fixed assets of the relevant institutions.

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| (b) | The fifteen contract packages which is total BOQ value of Rs.230.5 million were terminated during the period of 2015-2017 after paid Rs.91.1 million. The action had not been taken agents the relevant contractor as per contract agreement. Further, funds disbursement are closed on 15 October 2021 and an alternative fund arrangement had not been made to complete balance works. | Part of the balance work was completed in year 2021, under annual budget to a value of 1.25 million. Balance work supposed to do under MASL annual budget in future. | Action should be taken to recover the uneconomic expenditures from relevant party. |
| (c) | An agreement was signed on 17 February 2017 at a cost of Rs.225 million for the construction of two bridges on the Colombo - Ratnapura road and paid advances by the Project without acquisition of land. Subsequently, agreement had been mutually terminated, due to unavailability of access to the site. As a result, Rs.71.3 million had become uneconomic expenditure to the Project. | The contract was awarded expecting to acquire land through purchasing of lands, allowed in the RDA Act. As per the present valuation method, followed by Ministry of Highways, the maximum purchase price should be only 10% above the Valuation Department Valuation. Even though these lands are situated along the A4 road, the valuation of these lands was very low, since all these lands are listed as paddy land in the Agrarian Department. Therefore, the land owners did not agree for valuation and MOH decided to follow normal LA procedure. | Action should be taken to recover the uneconomic expenditures from relevant party |
| (d) | A sum of US\$ 21.5 million had allocated under the component 1 for Deployment of Basin Investment Plan. However, only US\$ 12.77 million had been utilized up to ended Project. | Project cost estimates were prepared based on the assumptions. It is advantage to the project and savings were utilized for other components. | Proper coordination should be maintained with line agencies and the cost estimate should be prepared base on the proper planning. |