

Climate Resilience Improvement Project (Additional Financing) - period from 01 January to 15 October 2021

The audit of financial statements of the Climate Resilience Improvement Project (Additional Financing) 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 Credit and Grant Financing Agreement No. 5768 LK dated 05 September 2016 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, the 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 and Provincial Road Development Department of Uva 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 Additional Financing Agreement, the estimated total cost of the Project was US\$ 42 million equivalent to Rs.6,048 million and entire amount was agreed to be financed by International Development Association. The Project had commenced its activities on 15 October 2016 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 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 |
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| (a) | (i) The retention money of 5 percent of eight development projects implemented in Badulla district under the supervision of the Uva Provincial Road Development Department had been releases within the Defect Liability period. Although validity period of the retention money guarantee bond expired on 01 December | Retention Money has been released after obtaining Retention Money Guarantee as per the provisions given in the Contract and to meet the requirements of the funding agency. | Action should be taken to correct the defect before release the retention money. |

2020, the defects had not been corrected as revealed during the physical audit inspection.

- (ii) Action had not been taken to conduct site inspection by the relevant Technical Officers and recommended to extend the validity period of the Retention Money Guarantee Bond accordingly. The contractors corrected those at their own cost before releasing the retention money guarantee.
- (b) A sum of Rs. 4 million payment had been suspended on construction of Major Culvert and Drainage Systems and Erosion in Sella Kataragama - Kiriwehera Road for development on both sides of the road, due to not maintain 150 mm thickness at concrete drain as per required specification in agreed BOQ. The Defect Liability period of this contract had expired on 31 October 2021 and the relevant defects had not been rectified till 15 December 2021. It was observed that at the physical examination, those defects were not in a condition to be repaired, due to the nature of the construction. Without considering that, suspended money were deposit in the general deposit account of the Uva Provincial Road Development Department without being credited to the Government revenue. The suspended money was deposited in the general deposit account until the defects were rectified. As the defects were not in a condition to be rectified the deposited amount has credited to the Government revenue. Uneconomic value should be recovered from relevant party.
- (c) The three contract packages at total BOQ value of Rs.182.2 million were terminated during the period of 2017-2019 after paid Rs.39 million. The action had not been taken against relevant contactor as per contract agreement and the foreign loan disbursement had been closed on 15 October 2021 without introduce alternative fund arrangement to complete balance work. As a result, Rs.39 million had become wasteful expenditure. Due to poor progress of the contractor, above contract has been terminated. When the contract been terminated, 3.9% of the total work completed. Balance work was done as a force Account contract under CRIP project to a value of 59.47 million and 95% of the work completed. Balance 5% of the work included under MASL annual budget in year 2022. Uneconomic value should be recovered from relevant party.
- (d) Although allocation under Flood Risk Mitigation component was US\$ 26 million as per Financial Agreement, US\$ 27.39 million was spent under above component. As a The procurement plan was revised time to time and submitted to the WB. Once WB granted the approval for the Action need to be taken to get proper approval.

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| result, US\$ 1.39 million was exceeding without being formal approval. | procurement plan through Systematic Tracking of Exchange in Procurement. It is accepted as the valid approval for the above variation. | |
| (e) The retaining wall constructed in Kaliodei additional spillway in Veeragadi unit in Akkaraipattu division by spending of Rs. 15 million under Item no. 2.3 of the contract package No. CRIP/AF/ WORKS/ID - AMP/NCB /97) was exploded and pushed forward about 3 inches, due to poor construction work. | Crack was developed along the construction joints of the reinforced concrete protection wall. Both side vertical wall tied with reinforced beam at 03 locations. It was completely rectified by the contractor. No more development of cracks at present. | Damages should be recovered from relevant party. |
| (f) The contractor had fail to complete 07 drop structure and 01 box culvert estimated value of Rs. 2.3 million under Improvements to Nellikadu first and second anicut in Nellikadu Drainage canal and C-b canal block 'J' unit in samanthurai division. The work completion had issued without considering that. As a result, the intended objectives of the contract were not met. | Unfortunately, as it is a drainage river, most of the time, drainage flow was available. Further, Drop structures had to be constructed in C6 canal and during water issue, respective constructions were unable to do by the contractor. Even in off season too heavy rain occurred in many times. The actual field condition was unfavorable to expedite or complete the drop structures before closing the Project. | Uneconomic value should be recovered from relevant party. |
| (g) Three contract packages related to Land side slope failure rectification works carried out in Badulla district under the supervision of Uva Provincial Road Development Department had not been completed within agreement period. However, a sum of Rs. 11 million had been paid on uncompleted works certified after obtain guarantee bond. Although guarantee bond had expired on 31 may 2021, balance works had not been completed by contractor. | Not commented | Contractor should be influenced to complete the balance works. |