

## **Jaffna Kilinochchi Water Supply and Sanitation Project (Iranamadu Component) - 2014**

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The audit of financial statements of the Jaffna Kilinochchi Water Supply and Sanitation Project-Iranamadu Component for the year ended 31 December 2014 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 Schedule 2, Section II B of the Loan Agreement No.2711-SRI (SF) dated 08 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank .

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, then Ministry of Local Government and Provincial Council, presently Ministry of Provincial Councils and Regional Development is the Executing Agency and the Provincial Irrigation Department is Implementing Agency of the Project. The objective of the Project is to strengthen and augment the Iranamadukulam to increase its water holding capacity and from the augmented storage to release 660 acre feet monthly to Jaffna Peninsula Water Supply Project. As per the Loan Agreement, the estimated total cost of Iranamadu Component of the Project was US\$ 16.32 million equivalent to Rs 800 million and out of that US\$ 13.03 million equivalent to Rs 620 million or 79 per cent of the total cost was agreed to be financed by the Asian Development Bank and the rest of US\$ 3.29 million equivalent to Rs 180 million or 21 per cent to be financed by the Government of Sri Lanka. The Project commenced its activities on 06 May 2011 and scheduled to be completed by 17 February 2017.

### **1.3 Activities of the Project**

According to the Agreement, the activities relating to Jaffna and Kilinochchi Water Supply and Sanitation –Iranamadu Component of the Project is summarized below.

Part 1: Rehabilitation of Iranamadu Head Works including Spillways, radial gates, apron, energy dissipating structures, bridge, sluice gates and automations. Achieve sustainable improvement of water and land productivity:

Part 2: Repairs to lift Irrigation Canal System.

#### **1.4 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### **1.5 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of purchases made out of the Loan etc.

- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan Agreement had been complied with.

**1.6 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

**2.1. Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report. I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

## 2.2. Commence on Financial Statements

### 2.2.1 Non Compliance with Laws, Rules and Regulations

According to Public Finance Circular No. 364(3) of 30 September 2003, information on payment of Value Added Tax should be furnished by the entity monthly, on or before 15 day of the following month in respect of each contractor separately with a copy to the Auditor General. A test check carried out thereon had revealed that information relating to the payment of Value Added Tax for Consultants aggregating Rs.1,176,042 had not been forwarded to the Commissioner General of Inland Revenue within the stipulated time.

## 3. Physical and Financial Performance

### 3.1. Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

| Source | Amount agreed for financing according to Loan Agreement |             | Allocation made in the Budget Estimate for the year 2014 | Funds utilized during the year 2014 |             | Funds utilized up to 31 December 2014 |              |
|--------|---|-------------|--|-------------------------------------|-------------|---------------------------------------|--------------|
|        | US\$ million  | Rs. million |  | US\$ million                        | Rs. million | US\$ million                          | Rs. million  |
| ADB    | 13.03   | 620         | 620  | 0.07                                | 9.12        | 0.32                                  | 42.71        |
| GOSL   | 3.29  | 180         | 180  | -                                   | -           | -                                     | -            |
|        | <u>16.32</u>  | <u>800</u>  | <u>800</u>   | <u>0.07</u>                         | <u>9.12</u> | <u>0.32</u>                           | <u>42.71</u> |

### 3.2. Physical Progress

The activities of the Project as per Project Agreement for rehabilitation of Iranamadu Head Works including spillways, radial, gates, apron, energy dissipating structures, bridge, sluice gates, and automations to achieve sustainable improvement of water and land productivity had not been commenced even though 3 1/2 years of the period of the Project was lapsed as at 31 December 2014. In this connection, the Project Director had stated that the construction works of the Project had not been commenced due to the strong resistance from farmers in the area on sharing water. In audit point of view, if the Project had taken action to communicate with farmers on the activities of the Project at the earliest stages of the Project, the resistance could have to be minimized by saving of cost and time of the Project.

### 3.3 Extraneous Expenses

The expenses incurred on telephone, electricity charges and course fee aggregating Rs 135,977 related to the Department of Irrigation had been accounted as expenditure of the Project.