

Iranamadu Irrigation Development Project – 2017

The audit of financial statements of the Iranamadu Irrigation Development Project for 09 months period ended 30 September 2017 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 IX, Section 9.03 of Financing Agreement No.I-857-LK dated 30 January 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development (IFAD).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry of Provincial Councils and Local Government is the Executing Agency and Provincial Irrigation Department and Department of Agriculture of the Northern Province are the Implementing Agencies of the Project. The objectives of the Project are to promote the effective and sustainable management of the irrigation infrastructure as enable to achieve sustainable improvement of water and land productivity. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 29.32 million equivalents to Rs. 3,782.43 million and out of that US\$ 22.23 million equivalents to Rs. 2,819.77 million was agreed to be provided by the International Fund for Agriculture Development. In addition, the contribution of US\$ 1.23 million equivalents to Rs. 160 million and US\$ 2.70 million equivalents to Rs. 351 million expected to be received from the private sector entities and beneficiaries of the Project respectively. The Project commenced its activities on 30 January 2012 and scheduled to be completed by 31 March 2017. However, the financial statements of the Project for 09 months period up to 30 September 2017 had been prepared and presented for audit.

1.3 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 as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 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 Accounting Standards and the International Fund for Agriculture Development Guidelines for Project Audits. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessment, 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 controls so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operation 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 operation of the Project, the identification of the purchases made out of the Loan, etc
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 30 September 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (f) Whether the funds, material and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Financing Agreement had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 30 September 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 September 2017 in accordance with Generally Accepted Accounting Principles and the IFAD Guidelines,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 30 September 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financing Agreement had been complied with.

3. Financial and Physical 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 30 September 2017 are shown below.

Sources	Amount agreed for financing in the Financing Agreement		Allocation made in the Budget Estimate for the period under review		Funds utilized during the period under review as at 30 September 2017			
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IFAD	22.23	2,819.77	5.96	892	3.70	560.44	20.46	2,883.43
Private Sector Organizations Beneficiaries' Contribution	1.23	160.00	-	-	-	-	0.01	0.58
GOSL	2.70	351.00	-	-	0.03	3.78	0.19	25.18
	3.16	451.43	1.24	185	1.18	117.14	3.01	366.57
Total	<u>29.32</u>	<u>3,782.20</u>	<u>7.20</u>	<u>1,077</u>	<u>4.91</u>	<u>681.36</u>	<u>23.67</u>	<u>3,275.76</u>

The following observations are made.

- The activities of the Project had been completed as at 30 September 2017 and US\$ 20.46 million equivalent to Rs. 2,883.43 million, out of the total allocation of US\$ 22.23 million equivalent to Rs. 2,819.77 million had been utilized at the end of the period of the Project.
- Out of the expected contributions of private sector organizations and the beneficiaries of the Project amounted to US\$1.23 million equivalent to Rs. 160 million and US\$ 2.70 million equivalent of Rs.351 million respectively only the contribution amounted to US\$ 0.01 million equivalent to Rs. 0.58 million and US\$ 0.19 million equivalent to Rs.25.18 million respectively had been received at the end of the period of the Project.

3.2 Physical Progress

According to the Project Completion Report, the main components of the Project of irrigation infrastructure development for improvement of agriculture products, extension and marketing activities thereon to achieve sustainable improvement of water and land in the Iranamadu area had been completed as at 30 September 2017. However, the works to be carried out to strengthen the capacity of the Iranamadu Tank under other donor funded project called Jaffna- Kilinochchi Water Supply and Sanitation Project had not been completed even as at 31 December 2017. As a result, the infrastructure development works completed by the Project had not been utilized in full strength for the benefit of the people in the area. The following further observations are made in this regard.

- According to the progress reports of the Project, the rehabilitation works of all main canals of the irrigation system of 30 kilometres had been completed at the end of the period of the Project. However, the rehabilitation works of 113 kilometres of branch /distribution canals and 22 kilometres of field canals had only been completed at the

end of the period of the Project due to inadequate allocation of funds, eventhough 135 kilometres of branch /distribution canals and 123 kilometres field canals were expected to be rehabilitated. Further, the physical observations made by the auditors on 23 February 2018 had revealed that the canals of Paranthan area had been filled with soil and other collected garbage due to lack of a proper mechanism to maintain such irrigation canals in sustainable manner.

- (b) According to the initial implementation plan, it was expected to construct 427 small scale rice processing centres under the component for Infrastructure Development purposes of the Project. However, 03 large scale paddy storeges and 19 drying floors for the use of Farmers' Organizations had only been constructed at the end of the period of the Project.
- (c) Further, the large scale paddy storages constructed at a cost of Rs. 36 million at Paranthan, Ramanadanpuram and Panankandi had been officially opened on 23 August 2016 for the use of the farmers in the area, only a part of the storage at Panankandi had been used even as at the 23 February 2018. The site inspection made on 23 February 2018 had revealed that the several major defects of the storage building constructed at Paranthan. Further, it was revealed that the respective building was not properly maintained for paddy storing purposes.
- (d) According to the Project Appraisal Report, 150 kilometres of gravel roads in the Project area were scheduled to be rehabilitated by the Project. However, it was revealed that only 20 kilometres of gravel roads had been rehabilitated at the end of the period of the Project. Further, 25 kilometres of other farm roads had been reconstructed as concrete roads.
- (e) The allocation of US\$ 2.47 million equivalent of Rs. 345.8 million had been made under the component of production extension and marketing and out of that only US\$ 1.96 million equivalent of Rs. 275.6 million had been utilized at the end of the period of the Project. It was revealed that no any training programmes on non-paddy crop groups formation, crop diversification demonstrations and farm demonstrations etc, had been conducted as at 30 September 2017, out of 3,043 such training programmes expected to be conducted during the period of the Project by the Non - Governmental Organizations and the Department of Agriculture.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) It was observed that the Project had taken action to procure 02 motor vehicles at a cost of Rs. 16 million on 15 February 2017 and transferred such assets to the Implementing Agency without considering the closure of the activities of the Project on 30 September 2017.
- (b) According to the financial statements, a sum of Rs. 4.20 million had been spent by the Project to prepare a plan for the development of cultivated paddy fields at

Kumarapuram. However, no information received for audit on actions taken by the Implementing Agencies of the Project to develop paddy fields in the area based on the respective plan.

3.4 Closure of the Activities of the Project

The activities of the Project had been closed as at 31 March 2017 and all eligible expenses had also been claimed and withdrawn by 30 September 2017. Further, the Project Completion Report had also been submitted on 20 September 2017. However, instructions had not been issued by the Executing Agency to the Project Management Unit to hand over the assets valued at Rs. 29 million to the respective parties and windup accounts.