

## **Jaffna Kilinochchi Water Supply and Sanitation Project (Iranamadu Component) -2017**

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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 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 2, Section IIB of 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**

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Accounting to the Loan Agreement of the Project, then Ministry of Provincial Councils and Local Government presently, the Ministry of Local Government, Provincial Councils and Sports is the Executing Agency and Northern Provincial Council is the Implementing Agency of the Project. The objective of the Project is to strengthen and augment the Iranamadu kulam Tank to increase its water holding capacity. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 16.91 million equivalent to Rs.2, 198.30 million and out of that the Asian Development Bank had agreed to provide US\$ 13.49 million equivalent to Rs. 1,753.70 million. The Project commenced its activities on 06 May 2011 and scheduled to be completed by 14 August 2017. However, the period of the Project had been extended up to 31 December 2020.

### **1.3 Responsibility of the Management for the financial statements**

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Management is responsible for the preparation and fair the preparation 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.

### **1.4 Auditor's Responsibility**

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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 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 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 identifications of the purchases made out of the Loan etc,
- (d) Whether the 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 Sri Lanka 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 the financial covenants laid down in the Loan 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 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 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.

### 3. Financial and Physical Performances

#### 3.1 Utilization of Fund

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 2017 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds Utilized			
	US\$ million	RS million		US\$ million	RS million	US\$ million	RS million
ADB	13.49	1,753.70	741.00	4.16	630.38	8.61	1265.26
GOSL	3.42	444.60	168.00	1.29	168.00	2.58	335.13
	<u>16.91</u>	<u>2,198.30</u>	<u>909.00</u>	<u>5.45</u>	<u>798.38</u>	<u>11.19</u>	<u>1600.39</u>

According to the information received, the activities of the Project had been suspended in 2014 due to the resistance from farmers in the Iranamadu area on sharing water resource and recommenced the activities of the Project in 2015. As a result, US\$ 11.19 million equivalent to Rs. 1,600.39 million, out of the total allocation of US\$ 16.91 million equivalent to Rs.2,198.30 million had only been utilized as at 31 December 2017.

#### 3.2 Physical Progress

The contracts for the purpose of strengthening of Iranamadu kulam Tank to increase its capacity had been awarded in April 2016 under 05 contract packages for rehabilitation of the dam, spillway and radial gates, construct of riprap protections, bridges and drop structures and spill tail canals and rehabilitate lift irrigation system etc, and expected to be completed before 14 August

2017. In addition, a building for the office of Provincial Irrigation Department at Mankulam was expected to be completed under the Project. According to the information received, the activities under the rehabilitation of spillway and installation of new Radial Gates of Iranamadu kulam Tank and construction of bridges and flood bund and rehabilitation of drop structure under the packages 02 and 04 had been completed as at 31 December 2017. The physical progress of other activities such as rehabilitation of dam under package-01, construction of rip rap protection works under package-03 and construction works under the upstream and lift irrigation canal system under package-05 had remained at the range of 65 per cent to 85 per cent of works originally targeted, at the end of the year under review.

### **3.3 Contract Administration**

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The following observations are made.

- (a) It was observed that 07 works including construction of a diversion canal and sluice approach canal under the rehabilitation of spillway which were not included in the original plan of the contract had been completed during the year under review at a cost of Rs. 30.17 million and other works such as the rubble paved cushion floor under the rehabilitation of drop structure and construction of upstream concrete parapet wall under rip rap protection works had been introduced at a cost of Rs 29.61 million. However, the approvals from the relevant parties had not been made available for audit.
- (b) The physical inspections made in July 2018 had revealed that the downstream and upstream dam embankments, bridges and flood bund and drop structures constructed in Iranamadu area had been eroded and washed off due to heavy rains and vehicle movements etc. Further, it was observed that the turfing and other soil preserving works had not been successfully implemented even though a sum of Rs 13.26 million spent thereon.
- (c) It was observed that a sum of Rs 8.51 million had been overpaid in December 2017 to a contractor engaged in rehabilitation of lift irrigation scheme under the contract package - 05 due to errors in measurements of 10,642 cubes of earth excavated for backfilling, leveling, watering and compaction purposes. The overpayments had been recovered in February 2018, allowing the contractor to enjoy the benefits on additional cash flows