

## **Iranamadu Irrigation Development Project (IIDP) - 2014**

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The audit of financial statements of the Iranamadu Irrigation Development Project 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 Article IX, Section 9.03 of the Financing Agreement No. I-857 dated 30 January 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development.

### **1.1. Implementation, Objectives, Funding and Duration of the Project**

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According to the Financing Agreement, then Ministry of Provincial Councils and Regional Development, presently the Ministry of Provincial Councils and Local Government is the Executing Agency and the Provincial Irrigation Department and Provincial Department of Agriculture of the Northern Province are the Implementing Agencies of the Project. The objective of the Project is to promote the effective and sustainable management of the irrigation infrastructure and to achieve sustainable improvement of water and land productivity. As per Financing Agreement, the estimated total cost of the Project was US\$ 29.32 million equivalent to Rs.3,812.6 million and out of that US\$ 22.23 million equivalent to Rs.2,891 million was agreed to be financed by the International Fund for Agriculture Development. In addition, US\$ 1.23 million equivalent to Rs.160 million was expected to be financed by the private sector organization whilst US\$ 2.70 million equivalent to Rs.351 million was expected to be contributed by the beneficiaries. The Project commenced its activities on 30 January 2012 and scheduled to be completed by 31 March 2017.

### **1.2. Responsibility of the Management for the Financial Statements.**

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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.

### **1.3. 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 judgement, 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 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 Financing Agreement.
- (e) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (f) Whether the funds, materials and equipments 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 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.

**1.4. Basis for Qualified Audit Opinion**  
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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**  
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**2.1. Opinion**  
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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 Financing Agreement,
- (d) 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 Financing Agreement had been complied with.

**2.2. Comments on Financial Statements**  
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**2.2.1. Accounting deficiencies**  
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The following observations are made.

- (a) Retention money amounting to Rs.20,031,272 deducted from the interim payments made to the contractors in 52 occasions had not been recognized as the liability of the Project. Therefore, the value of the work- in – progress and the retention money payable as at 31 December 2014 had been understated by that amount.

- (b) Furniture and equipments procured at a cost of Rs.942,204 through the contractors had been erroneously treated as the cost of civil works instead of shown under property , plant and equipments.

### 3. Financial and Physical Performance.

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#### 3.1. Utilization of Funds

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According to the information received, certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and as at December 2014 are shown below.

Source	Amount agreed to be financed according to the Financing Agreement		Provisions made in the Budget Estimate for the year 2014	Funds utilized		
	US\$ million	Rs million		during the year under review	up to 31 December 2014	
	US\$ million	Rs million	Rs million	Rs million	US\$ million	Rs million
IFAD	22.23	2,891	600	438.60	5.68	738.92
GOSL	3.16	410	90	52.60	0.70	90.55
Beneficiary contribution	2.70	351	--	--	--	--
Private sector contribution	1.23	160	--	--	--	--
Total	<u>29.32</u>	<u>3,812</u>	<u>690</u>	<u>491.20</u>	<u>6.38</u>	<u>829.47</u>

#### 3.2 Physical Progress

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According to the information made available, civil construction works of 08 contracts awarded by the Project under 25 packages had been completed as at 31 December 2014 whilst the physical progress of construction works under other 17 packages was remained at the range from 18 per cent to 90 per cent as at that date. Further, a comprehensive detailed action plan including financial and physical targets in monthly, quarterly, bi-annually etc and fixing responsibilities as enable to complete civil construction works before end of the period of the Project had not been prepared and implemented by the Project.

#### 3.3 Contract Administration

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The following observations are made.

- (a) Eventhough and allocation amounting to Rs.19.23 million had been made in the financing plan of the Project to recruit a Consultant Engineer for civil construction works, such a Consultant had not been deployed by the Project to ensure the quality of the works completed by the Project.

- (b) Eventhough the works under the Bill of Quantiles for secondary growth jungle clearing along the canals and reservation areas rehabilitated by Project were executed by the Farmer's Organization in the respective areas, the contractors involved on civil construction works of rehabilitation of Paranthan Main Channel under packages 02 and 12, rehabilitation of Distribution Channel of Driaru Main Channel under package 14 and rehabilitation of Right Bank Distribution Channel of Uriyan Channel under package 23 had made claims aggregating Rs.1,218,266 for such works and payments made thereon by the Project.
  
- (c) It was observed at the site visits made on 21 August 2015 that payments aggregating Rs.3,284,130 had been made to the contractor engaged on rehabilitation of Right Bank Distribution Channel of Uriyan Channel under package 23, without making physical measurement on earth filling activities Further, it was observed at the site visit that the bund of Paranthan Main Channel rehabilitated under packages 02 of the Project had been badly damaged.

### **3.4 Extraneous Expenditure**

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The following observations are made.

- (a) Eventhough the adequate provision was made available in the Annual Budget Estimate of the Irrigation Department of the Northern Provincial Council, a sum of Rs.1,119,080 had been spent by the Project for the purpose of repairing vehicles owned to the Department.
  
- (b) It was observed that the salaries amounting to Rs.307,973 had been paid by the Project to a Technical Officer deployed by a contractor.