

Iranamadu Irrigation Development Project (IIDP) - 2013

The audit of financial statements of the Iranamadu Irrigation Development Project (IIDP) for the year ended 31 December 2013 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 (GOSL) and the International fund for Agricultural Development (IFAD).

1.2 Implementation, objectives, Funding and duration of the Project

According to the Financing Agreement, the Executing Agency of the Project is then Ministry of Local Government and Provincial Councils presently, Ministry of Public Administration, Provincial Councils, Local Government and Democratic Governance. The Provincial Irrigation Department of the Northern Province, 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 the Financing Agreement the estimated total cost of the Project is US\$ 29.32 million and out of that US\$ 22.23 million was agreed to be financed by the International Fund for Agriculture Development and US\$ 3.16 to be financed by the Government of Sri Lanka. Further, US\$ 2.70 million is expected to be contributed by beneficiaries and other US\$ 1.23 million is expected to be financed by Private Sector. The Project commenced its activities on 30 January 2012 and scheduled to be completed by 31 March 2017.

1.3 Components of the Project

According to the Agreement, the components of the Project are summarized below.

Component 1: Infrastructure Development

- (a) Irrigation infrastructure rehabilitation
- (b) Other infrastructure Development

Component 2 : Production and Marketing

- (a) Social mobilization and Training
- (b) Production extension and Marketing
- (c) Other Agriculture Development.

Component 3 : Project Management

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. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements,

whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide and audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Loan etc,
- (c) Whether withdrawals under the Loan had been made in keeping with the specifications laid down in the Financing Agreement,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether the opening and closing balances, withdrawals from the replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date, and

- (h) Whether financial covenants laid down in the Financing Agreement had been complied with.

3. **Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, and except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purpose for which they were provided.
- (c) the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) 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 Agreement.
- (e) the financial covenants laid down in the Financing Agreement had been complied with .

4. **Financial Statements**

4.1 **Financial Performance**

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs. 335,244,373. The following statement shows a summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

Item of Expenditure	Expenditure for the year 2013	Expenditure for the year 2012	Cumulative Expenditure as at 31 December 2013
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	Rs.	Rs.	Rs.
Civil Works	316,819,478		316,819,478
Vehicles, Furniture and Equipments	4,602,840		4,602,840
Advisory Services and	1,563,491		1,563,491

Studies			
Training	785,231		785,231
Salaries and Allowances	9,401,086	2,497,385	11,898,471
Operational and Management Cost	2,072,247	467,277	2,539,524
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Total	335,244,373	2,964,662	338,209,035
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4.2 Imprest Fund Account.

According to the information made available, the operations of the Imprest Fund Account during the year under review and the balance as at 31 December 2013 are given below.

	<u>Rs.</u>
Balance as at 31 January 2013	Nil
Replenishments received	424,112,960
Less: Withdrawals	335,244,373
Foreign Exchange loss	316,110

Balance as at 31 December 2013	<u>88,552,477</u>

5. Audit Observations

5.1 Accounting Deficiency

Furniture and Equipments valued at Rs 942,204 procured by a contractor, out of funds provided by the Project had been erroneously shown under the cost of civil works instead of shown under Furniture and Equipment.

5.2 Non- Compliance with Laws, Rules and Regulations

Incentives amounting to Rs. 846,000 had been paid to the officers of the Project who released from the Department of Irrigation, contrary to the provisions made in the Circular No.DMS 30 dated 22 September 2006 of the Department of Management Services.

6. Financial and Operating Review

6.1 Utilization of Funds

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 the cumulative utilization as at 31 December 2013 are shown below.

Source	Amount agreed to be provided		Budgetary provision for the year 2013	Funds utilized during the year	Funds utilized up to 31 December 2013	
	US\$ million	Rs million	Rs million	Rs million	US\$ million	Rs million
IFAD	22.23	2,890.0	350.0	300.3	2.31	300.3
GOSL	3.16	410.0	125.0	34.94	0.31	37.9
Beneficiary Contribution	2.70	351.0	--	--	--	--
Private Sector Participation	<u>1.23</u>	<u>159.9</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>29.32</u>	<u>3,810.9</u>	<u>475.0</u>	<u>335.24</u>	<u>2.62</u>	<u>338.2</u>

The following observations are made.

- (a) According to the information received, a sum of Rs. 475 million had been allocated in the Budget Estimate for the year 2013 and out of that Rs 335 million had only been utilized. The details of component wise allocations made for the year and its utilization is given below.

<u>Component</u>	<u>Amount allocated for the year 2013</u> <u>Rs. million</u>	<u>Amount utilized for the year 2013</u> <u>Rs. million</u>	<u>Percentage of utilization</u>
Infrastructure Development	422	317.85	24.68
Production and Marketing	13	0.72	94.46
Project Management Cost	40	16.67	58.33
	<u>475</u>	<u>335.24</u>	<u>29.42</u>

- (b) Although a comprehensive detailed action plan including financial and physical targets in monthly, quarterly, bi-annually etc. covering entire period of the Project with fixing responsibilities to ensure the achievement of Project objectives within the specific period of the Project should be prepared, such a plan had not been prepared and implemented.
- (c) According to the initial financial plan of the Project, a sum of Rs. 19,230,000 allocated for the consultancy services for the activities of the Project. However, a Consultant had not been appointed for the civil works even as at 31 December 2013.

6.2 Contract Administration

- (a) Procurement procedure had not been adopted to select a supplier to procure the office equipments valued at Rs. 942,204 for the office of Project Management Unit at Kilinochchi. Further, 02 executive chairs purchased for the Project Management Unit

at a cost of Rs. 242,834 had not been rendered for audit at the physical verification carried out in sample basis. In addition, 37 items of extra works valued at Rs. 3,251,904 had been allowed to carry out under the repairs of the building of the Project Management Unit and payments made thereon without a proper authority.

- (b) Further, 55 items of extra works valued at Rs. 8,595,595 had been executed under the contract for rehabilitation of irrigation canal at Paranthan without a proper authority. It was revealed at the audit inspection that the turf work had not been carried out at newly filled embankment of the irrigation system eventhough a sum of Rs. 830,380 had been paid thereon.
- (c) It was observed in audit that interim payments made under rehabilitation of RB main channel (Package – 06) valued Rs. 28,990,661 had been certified by the Engineers of the Project without making measurements of the works done. Thus evidence that the supervision of the activities of the Project was remained unsatisfactory.

6.2 Items in Extraneous Nature

The following observations are made.

- (a) Expenses on electricity and vehicle repairs aggregating Rs. 651,481 of the office of the Deputy Director of Irrigation had been paid out of the proceeds allocated for activities of the Project.
- (b) Advertisement charges amounting to Rs. 72,912 had been incurred by the Project for hiring of Non - Government Organisation for Social Mobilization activities of the Project. However, niether a Non - Government Organisation had been selected nor activities on Social Mobilization purposes commenced even by 31 December 2013.