

Jaffna Kilinochchi Water Supply and Sanitation Project (Iranamadu Component)- 2015

The audit of financial statements of the Jaffna Kilinochchi Water Supply and Sanitation Project-Iranamadu Component for the year ended 31 December 2015 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 II B 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

According to the Loan Agreement of the Project, Ministry of Provincial Councils and Local Government is the Executing Agency and the Provincial Irrigation Department is Implementing Agency of the Iranamadu Component 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 amounted to US\$ 16.91 million equivalent to Rs. 2,198.3 million and out of that US\$ 13.49 million equivalent Rs. 1,753.7 million or 79 per cent of the total cost was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 06 May 2011 and scheduled to be completed by 14 August 2017.

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 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

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 misstatements 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. 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 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 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 the purchases made out of Loan etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan 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 Loan Agreement had been complied with.

1.5 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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 Loan 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 Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Value of work done aggregating Rs 167.22 million under 03 contracts for civil works which remained uncompleted as at 31 December 2015 had been brought to account as completed works instead of shown as work-in progress.
- (b) The proceeds of funds received and expenses incurred during the year under review had been shown in the Balance Sheet instead of cumulative amount of funds received and expenses incurred thereon as at 31 December 2015. As a result, the proceeds of the Loan received and expenses incurred thereon as at 31 December 2015 had been understated by Rs. 42.71 million.

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 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Fund utilized			
				during the year 2015	up to 31 December 2015		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	13.49	1753.70	172	0.97	135.56	1.31	178.26
GOSL	3.42	444.60	50	0.32	41.63	0.32	41.64
	<u>16.91</u>	<u>2,198.30</u>	<u>222</u>	<u>1.29</u>	<u>177.19</u>	<u>1.63</u>	<u>219.90</u>

According to the information received, the activities of the Project had been suspended due to the strong resistance from farmers in the Iranamadu area on sharing water resource. As a result, US\$ 1.63 million equivalent to Rs. 219.90 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 2015 after lapse of 04 years and 08 months from the commencement of the activities of the Project.

3.2 Physical Progress

The following observations are made.

- (a) As mentioned above, the activities of the Project had been suspended in 2014 due to the protests of the people living in Iranamadu area for the use of Iranamadu tank as a main source of water for Jaffna Peninsula. However, the Cabinet of Ministers had decided at its meeting held on 15 July 2015 to transform the activities of the Project to desalt sea water to fulfill the water requirement of the Jaffna Peninsula. Therefore, the activities of the Project had been recommenced in February 2015 and the contract for civil works had been awarded under 03 packages on rehabilitation of dam embankments, spill ways and parapet walls, rip rap protection works, supply and installation of new radial gates and automation of spill and sluice gates etc without considering the structural changes made in the scope of the works of the Project.
- (b) Eventhough the scope of the works of the Project had been restructured, a comprehensive detailed action plan including financial and physical targets in monthly, quarterly, bi-annually etc covering the period of the Project with fixing responsibilities had not been prepared to ensure the achievement of the objectives the Project. Further, the Project had not prepared a Master Procurement Plan and Time Schedule as required by the paragraphs 4.2.1 and 4.2.2 of the Government Procurement Guidelines.