

Iranamadu Irrigation Development Project - 2016

The audit of financial statements of the Iranamadu Irrigation Development Project for the year ended 31 December 2016 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.

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 and 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 equivalent to Rs.3,782.43 million and out of that the US\$ 22.23 million equivalent to Rs. 2,819.77 million was agreed to be provided by the International Fund for Agriculture Development. In addition, US\$ 1.23 million equivalent to Rs. 160 million and US\$ 2.70 million equivalent to Rs. 351 million expected to be contributed by the private sector and beneficiaries of the Project respectively. The Project commenced its activities on 30 January 2012 and scheduled to be completed by 31 March 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 as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditors 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 and 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 31 December 2016 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 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 and 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 31 December 2016 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 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 31 December 2016 are shown below.

Sources	Amount agreed for financing in the Financing Agreement		Allocation made in the Budget Estimate for the year under review		Fund utilized			
	US\$ million	Rs. million	US\$ million	Rs. million	during the year under review		as at 31 December 2016	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IFAD	22.23	2,819.77	7.80	1,125	7.66	1,117.25	16.77	2,315.00
Private Sector Organizations Beneficiaries' Contribution	1.23	160.00	-	-	-	-	0.01	0.58
GOSL	2.70	351.00	-	-	0.03	4.34	0.16	21.40
	3.16	451.43	0.86	125	0.82	118.18	1.83	249.42
Total	<u>29.32</u>	<u>3,782.20</u>	<u>8.66</u>	<u>1,250</u>	<u>8.51</u>	<u>1,239.77</u>	<u>18.77</u>	<u>2,586.40</u>

3.2 Physical Progress

According to the sub section 4.1 (b) and Schedule 1 of the Financing Agreement, the infrastructure development works such as construction of agro wells and tube wells, rain water harvesting tanks and other small structures were expected to be implemented by the Project to improve and popularize rainwater savings techniques among the people living in the Iranamadu area. The following observations are made on the physical progress on the activities carried out by the Project.

- (a) According to the Action Plans of the Project, 60 tube wells and 20 agro wells expected to be constructed during the period of the Project and out of that only 48 tube wells and 18 agro wells had been constructed as at 31 December 2016. Further, no action had been taken by the Project to construct rain water harvesting tanks.
- (b) As per the reports on physical progress, the contracts on construction works such as canals, drainages, canal roads, agro and tube wells, drying floors, paddy stores etc had been awarded under 232 packages at a cost of Rs. 2,370.56 million. Out of that the construction works under 64 packages valued at Rs. 287.74 million had remained uncompleted as at 31 December 2016. Further, the construction works under 09 packages had been completed as at 31 December 2016 with delays ranging from 2 ½ months to 09 months and the construction contracts awarded under 05 packages were abandoned half way due to failures of the contractors.
- (c) It was observed that a Non- Governmental Organization had been hired by the Project to conduct the gender basis training sessions, programmes and other relevant skill development activities. It was revealed that 351 training sessions had been conducted, out of 461 training sessions expected to be completed as at 31 December 2016. Further, a sum of Rs. 41.31 million had only been utilized as at 31 December 2016, eventhough a sum of Rs. 86.44 million had been estimated thereon. Therefore, possibility of use of the allocations amounting to Rs. 45.13 million during the remaining period of 03 months to conduct 110 training sessions was very remote.
- (d) According to the information received, 229 farmers under the Iranamadu Irrigation systems had been participated for 06 field visits during 2015- 2016 in Mahaweli “H” area organized by the Project to share the experiences on Bulk Water Allocation System. However, head works of the Iranamadu Tank expected to be carried out under other Project called “Jaffna-Kiliinochchi Water Supply and Sanitation Project” was not completed even as at 31 December 2016. Therefore, the construction works on drainage system under the Bulk Water Allocation System had not been completed and farmers could not use their experience received in the field visit..
- (e) According to the financial statements of the Project for the year under review, a sum of Rs. 2.71 million had been spent to provide trainings of community groups for operations and maintenance of the irrigation and other infrastructures rehabilitated by the Project. However, it was observed at the field inspection that rehabilitated distribution channels were not properly maintained by the farmer organizations. Therefore, the sustainability of the infrastructures rehabilitated by the Project is remained questionable.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that the sites under 05 contracts on construction of tube wells and agro wells had been handed over to the respective contractors with delays in ranging from 02 months to 08 ½ months due to reasons such as acquisition of plots of land and receiving the concurrence of the farmer’s organizations etc.

- (b) As a practice, the Project had prepared Bill of Quantities for civil construction ignoring the major works to be included therein. The test check carried out under the contract awarded for construction of agro wells and tube wells, the major item of supplying and installing foot valves were not included in the Bill of Quantities and additional payments amounting to Rs. 28,135 each had been paid under variation orders for 05 tube wells.
- (d) It was observed that the rehabilitation works under drainage system off Paranthan Main Canal Road of 2.50 kilometres had not been completed even as at 31 May 2017. However, the completion certificate had been issued by the Project thereon.

3.4 Matters in Contentious Nature

According to the records maintained by the Project, the milking cows had been distributed among 210 beneficiaries each in the area of the operations of the Project. However, at the time of audit inspection made by the auditors on 30 May 2017, 04 beneficiaries living in Kandawelli and Karachchi-Divisional Secretariat areas had stated that they had not received milking cows, eventhough their names were included in the records of the Project as recipients of cows.

3.5 Human Resources Management

The cadre of the Project consisted with 16 officers approved in 2012 had been amended in 04 times and new cadre of 82 officers had been introduced at the later stages of the period of the Project. Thus, it evidenced that the activities had been implemented by the Project without assessing the real needs of human resources at initial stages of the period. Further, a Financial Consultant had been deployed since 01 August 2016 at a monthly allowance of Rs. 125,000 without obtaining the approval of the Department of Management Services.