

## **Jaffna Kilinochchi Water Supply and Sanitation Project-Iranamadu Component -2018**

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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 2018 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 of the Section II B of the Loan Agreement No.2711 dated 08 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comment and observation which consider should be reported to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, Internal and Home Affairs and Provincial Council and Local Government 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 Iranamadukulam Tank to increase its water holding capacity. As per the Loan Agreement, the estimated total cost of the Project was US\$ 16.91 million equivalent to Rs.2,198.30 million and out of that US\$ 13.49 million equivalent to Rs. 1,753.70 million was agreed to be provided by the Asian Development Bank and the balance amount expected to be provided by the Government of Sri Lanka. 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 Opinion**

In my opinion, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2018 financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## **3. Physical Performance**

### **3.1 Physical progress of the activities of the Project**

According to the work plans, the activities of the Project were implemented under 06 packages and works under all the packages had been completed in 30 June 2018. However, it was observed at the field inspections made in February and June 2019, the flood bund constructed at a cost of Rs. 57.49 million for the purpose of protecting farming areas and downstream residents from floods had been severely damaged by the flash flood occurred on 22 December 2018, due to rehabilitation works done in improper manner and poor flood management methodologies applied by the Irrigation Engineers. According to the

explanations made, a rainfall more than 380 mm had been received during the short period of the respective day and newly constructed flood bund was not economical to bear such a flood occurs once in 500 years.

### 3.2 Observations made on site visits

The following observations are made.

	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	A sum of Rs. 13.27 million had been spent for turfing of downstream of the bund, the respective area become dry and the bund had eroded, due to poor maintenance of turfing area.	Fruitless expenses	Contractor had not done the watering until the turf get root in the defects liability period. Action will be taken to rectify it by selecting and growing of turf varieties suitable for dry zone.	Considering maintenance of the reservoir bund in sustainable manner, action need to be taken to rectify the situation.
(b)	The Toe drain constructed at cost of Rs. 17.65 million to accumulate water come through berm drains, step drain and seepage water had been blocked by the weed plants and garbage deposited. As a result, the V -Notch weir constructed at a cost of Rs. 3.59 million could not be utilized to measure seepage water accurately, due to poor maintenance of Toe drain.	-Do-	Eventhough there is stagnated water in some places, it will not affect the seepage measurement in the V notches after the steady flow through the toe drains. Further, action will be taken to recruit the labourers for maintenance purposes.	Appropriate action need to be taken to keep the toe drain in required standard.
(c)	It was observed that a leakage in the newly rehabilitated Ungated Ogee section at a cost of Rs. 10.01 million during the recent spilling times.	Intended benefits will not be reached.	It was informed to the contractor to rectify those defects. Due to the water level in the reservoir, they were unable to rectify immediately and they agreed to rectify once the water level goes down.	-Do -

### 3.3 Underutilized Resources

	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
	It was observed that 05 buildings with concrete slabs constructed at a cost of Rs.21.96 million	Unused capacity of the buildings constructed.	On original contract, there is no building provision and planned to fix the solar panels just above the ground level.	Satisfactory measures to be taken by the management to utilize the constructed

to locate solar panels at the roof tops for electricity generation purposes had remained idle.

Later, considering the assets for the sustainability of the project and the farmers' benefit, we decided to construct building. Since the shortage of funds under this project, it was unable to complete the whole building and started the power production.

### 3.4 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>Eventhough all the construction works of the Project had been completed by 30 June 2018 and the completion report had also been issued, the Project Management Unit is remained in operation and a sum of Rs.1.56 million had been spent as staff salaries and allowances for period from July to November 2018.</p>	<p>Additional costs for the operations of the Project.</p>	<p>The Project Management Unit is still in operation for the purposes of preparation of financial statements, staff trainings, inspection of sites and supervise the defects and repair works etc.</p>	<p>Need to maintain minimum staff for the respective activities.</p>