

Jaffna Kilinochchi Water Supply and Sanitation Project -Iranamadu Component - 2019

The audit of the financial statements of the Jaffna Kilinochchi Water Supply and Sanitation Project-Iranamadu Component for the year ended 31 December 2019 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 Article 2 of the section II B of the 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. My comment and observation which I 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 Iranaimadukulam 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 2,196.30 million and out of that US\$ 13.49 million equivalent to Rs.1732.56 million was agreed to be provided by Asian Development Bank and the balance amount expected to be provided by the Government of Sri Lanka. The Project had commenced its activities on 06 May 2011 and scheduled to be completed by 14 August 2017. However, the date of completion of the activities of the Project had been extended up to 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flow 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 the Project's internal control.
- 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.

2. Comments on Financial Statements

2.1 Accounting Deficiency

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Provision for the delay damages amounting to Rs.32,362,896 and financial charges amounting to Rs.212,681 payable to the contractor as per the decision of the dispute Adjudication Board had not been brought to the financial statement for the years under review.	Understatement of liabilities	The request has been made to Ministry of Provincial Council by Chief Secretary, Northern Province based on the Dispute Board decision for supplementary allocation and awaiting for allocation.	Financial statement should disclose all relevant information to its stakeholders.

3.1 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Eventhough defect liability period of the project had been ended by 31 December 2019, the assignment completion report as per the general condition of the consultancy service agreement had not been submitted by the consultant within two weeks of the performance certificate issued to the contractor. As a result, final payment of the consultant services amounting to Rs.1,493,092 had not been paid to the consultant and it was remained in the deposited account of the Irrigation department.	Delaying payments to the contractor.	At present, the Consultant has submitted Assignment Completion Report and we are checking it. After that, the payment for Consultant will be released	Project completion report should be documented as per Service agreement made with consultant. Final completion report of consultant shall be final evidence of actual completion of the works by contractor in proper manner without defect.

3.2 Unutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
A building constructed with 05 concrete slabs at a cost of Rs.21.96 million located for supply of solar power for	Unused capacity of the building constructed	On original contract, there is no building provision and planned to fix the solar panels on the ground just above the	Action should be taken to utilize building for the intended purpose.

electricity generation purpose. However, the building had been remained idle for more than 2years.

ground level.

There are needs for farmers for store building. At the meantime, these buildings were constructed to make the roof mounted solar system in order to get the “Net Plus” electricity connection as per the CEB requirement, for the benefit of farmers and the sustainability of the project.

Since the shortage of funds under this project, we were unable to complete the whole building functional and completed up to roof and fixed the solar panel and started the power production. But, we have discussed with ASMP project to take for this building and complete the work to facilitate the farmers for store the products.

Due to the COVID – 19, there are some delay on the approval of ASMP project in the Kilinochchi district.

3.3 System and Control

Audit Issue	Impact	Response of the Management	Auditor’s Recommendation
Water distribution through the lift irrigation had been carried out without being maintained a farmer’s register. As a result, entire population of the beneficiaries of the project was unable to identify properly.	unable to identify beneficiaries of the Project	We have taken action to prepare and maintain High Land farmers’ register through the Agrarian Services Department with the support of District Secretariat. Updating Paddy land Registers (PLR) is in progress. Once it completed, High land register work will be commenced. At present, it is operated with the list available with farmers’ organization.	Register should be maintained to identify the beneficiaries of the Project.