

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
USAID/SRI LANKA'S COOPERATIVE AGREEMENT NO. 383-
0080-A-PG-7040-00-00
WITH INTERNATIONAL IRRIGATION MANAGEMENT
INSTITUTE
SRI LANKA**

**Audit Report No. 5-383-95-011-N
March 8, 1995**



**FINANCIAL INFORMATION IN THIS REPORT MAY BE
PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905
SHOULD BE CONSIDERED BEFORE ANY
INFORMATION IS RELEASED TO THE PUBLIC.**



J.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 8, 1995

TO: David A. Cohen, Mission Director, USAID/Sri Lanka

FROM: Richard C. Thabet, RIG/A/Singapore *Richard C. Thabet (for)*

SUBJECT: Audit of USAID/Sri Lanka's Cooperative Agreement No. 383-0080-A-PG-7040-00-00 with International Irrigation Management Institute Report No. 5-383-95-011-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Ernst and Young) for your action. The audit covered the period from October 18, 1987 to December 31, 1992. During this period, International Irrigation Management Institute (IIMI) reported that it spent \$284,113. The background information on the cooperative agreement and the project is presented on page 1 of the report.

The audit objectives were to:

- Determine whether IIMI's Fund Accountability Statement presents fairly the income and expenditures incurred under the cooperative agreement;
- Ascertain whether IIMI's internal controls were adequate with respect to acquisition and disposal of assets and recording and documenting transactions; and
- Report on IIMI's compliance with applicable laws, regulations, and terms of the cooperative agreement.

The audit report concluded that:

- The Fund Accountability Statement presents fairly, in all material respects, the income and expenditures incurred under the cooperative agreement;
- IIMI's internal controls were adequate; and

- IIMI's operations complied in all material respects with applicable laws, regulations, and terms of the cooperative agreement.

There are no findings in the audit report. As a result, there are no recommendations to be included in the Inspector General's recommendation follow-up system. If you have any questions, please feel free to contact us.

We appreciate the courtesies and cooperation USAID/Sri Lanka and the IIMI extended to the auditors and our staff during the course of this audit.

Attachment: a/s



**INTERNATIONAL IRRIGATION
MANAGEMENT INSTITUTE**

**IRRIGATION SYSTEMS MANAGEMENT
PROJECT (ISMP)**

***UNDER THE CO-OPERATIVE AGREEMENT
NO: 383-0080-A-PG-7040-00***

OCTOBER 18, 1987 TO DECEMBER 31, 1992

 ERNST & YOUNG
OCTOBER, 1994.

v'

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**INTERNATIONAL IRRIGATION MANAGEMENT
INSTITUTE**

**CO-OPERATIVE AGREEMENT
NO: 383-0080-A-PG-7040-00**

OCTOBER 18, 1987 TO DECEMBER 31, 1992

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WRHF/DTR/SW

November 28, 1994

Mr. Richard C. Thabet
Regional Inspector General for Audit, Singapore
US Agency for International Development
302, Orchard Road
03-01 Tong Building
Singapore 0923
Singapore

Dear Sir

The report submitted herewith details the results of our audit of USAID/Sri Lanka Co-operative agreement No: 383-0080-A-PG-7040-00 with the International Irrigation Management Institute (IIMI) under the Irrigation Systems Management Project (ISMP) for the period October 18, 1987 to December 31, 1992.

IIMI- THE ORGANIZATION AND ITS PROGRAMS

IIMI was established in September 1983 in order to conduct research and training in irrigation and water management. The Institute, which has its Head-Office in Sri Lanka and 10 field offices located worldwide, is governed by a thirteen member Board of Governors.

The ISMP agreement was entered into between USAID/Sri Lanka and IIMI in October 1987, to achieve the following core objectives:

- To enhance national institutional capacity in carrying out effective applied research on irrigation management problems; and
- To provide solutions to problems of irrigation concerns.

These objectives were to be achieved by conducting collaborative research programs and through the provision of consultancies and training.

AUDIT OBJECTIVES AND SCOPE OF WORK

We have conducted a financial audit to examine and express an opinion on the Fund Accountability Statement of IIMI's grant for receipts and expenses incurred locally under USAID/ Sri Lanka's Co-operative agreement No: 383-0080-A-PG-7040-00 for the period, commencing October 18, 1987 and ending on December 31, 1992.

The Fund Accountability Statement (FAS) comprises the costs incurred against this grant in respect of the aforementioned period and relevant notes thereon inclusive of a summary of the significant accounting policies.

The results of our work are set out in the ensuing Reports on the :-

- (a) Fund Accountability Statement;
- (b) System of Internal Controls; and
- (c) Compliance with Agreement Terms, Laws and Conditions.

The objectives of our assignment were as follows:

- (a) Ensure that the Fund Accountability Statement presents a true and fair view of the costs incurred during the period October 18, 1987 to December 31, 1992, and that such costs are in accordance with generally accepted accounting principles, and the terms of the Grant.

However, as intimated by the Director, Finance and Administration of IIMI to the Controller, USAID Mission to Sri Lanka, documents pertaining to the period October 1987 to December 1988 and January 1990 to December 1990 amounting to US\$ 67,968/- were not available for our perusal as they were in an illegible state due to the floods that affected the city of Colombo in 1992. Therefore, we have relied on the work carried out by external and internal auditors relating to the said period whose reports we have reviewed, in expressing our opinion on the Fund Accountability Statement.

- (b) Ascertain the adequacy of IIMI's Internal Controls in detecting errors and irregularities in respect of the acquisition and disposal of assets and the recording and documentation of transactions pertaining to the Grant.
- (c) Determine the degree of IIMI's compliance with applicable laws, regulations, Grant terms and binding policies and procedures.

AUDIT RESULTS

(a) Opinion on the Fund Accountability Statement

The Fund Accountability Statement presents fairly, in all material respects, the receipts and payments of ISMP for the period October 18, 1987 to December 31, 1992.

(b) Systems of Internal Control

We relied on IIMI's internal control structure as our review and documentation of the accounting and control systems indicated that an adequate system did exist to support our opinion on the Fund Accountability Statement.

(c) Compliance with Agreement Terms, Laws and Regulations

Our tests of compliance with the agreement terms, applicable laws and regulations, of selected transactions and records of IIMI indicated that IIMI complied, in all material respects with the agreement terms, applicable laws and regulations.

FINDINGS AND RECOMMENDATIONS

We noted two major inadequacies in the Co-operative Agreement as follows;

- The composition of expenditure line items given in the budget; and
- The provisions as regards exceeding of budgeted expenditure on individual line items.

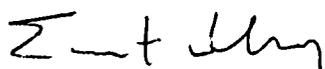
Therefore, we recommend that due consideration is given to the said areas in preparing future agreements in order to prevent ambiguities.

ACKNOWLEDGMENTS

We wish to place on record our appreciation of the co-operation and assistance provided to us by the officials of the following organizations.

- International Irrigation Management Institute.
- US Agency for International Development, Mission to Sri Lanka.
- The Office of the Regional Inspector General for Audit, Singapore.

Yours faithfully



WRHF/DTR/SW

The Board of Governors
International Irrigation Management Institute
127, Sunil Mawatha
Pelawatte
Sri Lanka

INDEPENDENT AUDITOR'S REPORT

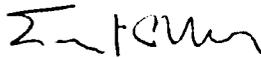
We have audited the Fund Accountability Statement of International Irrigation Management Institute (IIMI) pertaining to its Co-operative Agreement No: 383-0080-A-PG-7040-00 with the United States Agency for International Development, Sri Lanka ("USAID/SL") for the period October 18, 1987 to December 31, 1992 (i.e. end of the Grant period). The Fund Accountability Statement is the responsibility of the IIMI management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit of the Fund Accountability Statement in accordance with U.S. Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe, that our audit provides a reasonable basis for our opinion.

We were unable to verify US\$ 67,968, due to the documents pertaining to the said sum not been in a legible state. However, since this was subject to both external and internal audits by international firms of Chartered Accountants, whose reports we have reviewed; we believe it inappropriate to classify this amount as a questionable cost.

In our opinion, the Fund Accountability Statement referred to above, presents fairly, in all material respects, project revenues, costs incurred and re-imbursed and commodities and technical assistance directly procured by A.I.D for the period under review in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 1.

This report is intended for the information of IIMI and the U.S. Agency for International Development (A.I.D). However, upon acceptance by the A.I.D. Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "E. Young".

Colombo
October 14, 1994

INTERNATIONAL IRRIGATION MANAGEMENT INSTITUTE

FUND ACCOUNTABILITY STATEMENT

October 18, 1987 to December 31, 1992

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>NOTES</u>
	US\$	US\$	<u>INELIGIBLE</u> US\$	<u>UNSUPPORTED</u> US\$	
REVENUE					
Co-operative agreement 383-00-80-A-PG- 7040-00	<u>284,384</u>	<u>284,113</u>			
COSTS INCURRED					
Staff Cost	43,731	54,627			3
Workshops & Publications	27,817	19,891			
Sub-agreements	195,224	189,939			
Indirect Cost	17,612	19,656			
Total Costs	<u><u>284,384</u></u>	<u><u>284,113</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	2

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Significant Accounting Policies

- (a) The Fund Accountability Statement, expressed in Sri Lanka Rupees is prepared in accordance with the historical cost convention. Sri Lankan rupee amounts have been translated to their US \$ equivalent at the exchange rate stipulated by USAID/Sri Lanka for the relevant quarter.
- (b) Revenue relates to cash received from the USAID/SL, under the Grant.
- (c) The expenditure has been accounted for as follows :
- Local Staff Cost - actual basis; and
 - Sub agreements and Workshops & Publications- actual amounts expended as well as amounts committed.

2. Non-verifiable amounts

We were unable to verify expenditure of US\$ 67,968 since the related vouchers were in an illegible state as a result of the floods that affected the City of Colombo in 1992. Nevertheless, attempts were made by us to verify certain transactions relating to this period specified below:

	<u>US\$</u>
Oct 18, 1987 - Dec 31, 1988	6,288
Jan 01, 1990 - Dec 31, 1990	61,680

	67,968
	=====

However, the above periods had been audited by Messrs Ernst & Young and Messrs Coopers & Lybrand respectively. These audit reports have expressed a true and fair view on the financial statements of the Institute except that they have been prepared in accordance with the accounting policies recommended by the Consultative Group on International Agricultural Research (CGIAR).

We also perused Management Letters issued by external auditors and internal audit reports of KPMG - Ford Rhodes Thornton. These reports reveal no material instances of unsupported or questionable expenditure.

Furthermore, this issue had been communicated to the Controller, USAID Mission to Sri Lanka by the Director, Finance and Administration of IIMI prior to the commencement of the audit.

Due to the above reasons, we do not believe it proper to classify this amount as a questionable cost, in expressing our opinion on the Fund Accountability Statement.

3. Expenditure over Budget

It is evident from the Fund Accountability Statement, that the actual expenditure on the staff cost line item has exceeded the budget by 25%. (\$10,896)

This cost over-run has not been approved by USAID to date; contrary to the requirements of section 4.D.3. of AID Handbook 13. However, we have not classified this amount as a questionable cost, since this provision has not been specifically included in the Grant Agreement.

In fact, Article III of the Agreement states;

" Within the total funds obligated, the Recipient may, with the exception of overhead costs, adjust line item amounts as reasonably necessary for the performance of work described in Attachment 2".

WRHF/DTR/SW

The Board of Governors
International Irrigation Management Institute
127, Sunil Mawatha
Pelawatte
Sri Lanka

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS

We have audited the Fund Accountability Statement of International Irrigation Management Institute (IIMI) pertaining to its Co-operative Agreement No: 383-0080-A-PG-7040-00 with the United States Agency for International Development, (USAID) Sri Lanka, for the period October 18,1987 to December 31,1992.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of IIMI, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of IIMI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless

occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- * Accounting Controls
 - Cash Disbursements
 - Payroll
 - Procurement of Supplies

- * Administration Controls
 - Cost Allocation
 - Monitoring
 - Reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

A particular strength noted in the control system was that the Grantee is subject to quarterly internal audits by KPMG Ford Rhodes Thornton and annual audits by Coopers & Lybrand.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of IIMI and the U.S. Agency for International Development (A.I.D.). However, upon acceptance by the A.I.D. Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Ernst & Young

Colombo
October 14, 1994

WRHF/DTR/SW

The Board of Governors
International Irrigation Management Institute
127, Sunil Mawatha
Pelawatte
Sri Lanka.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

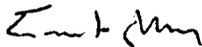
We have audited the Fund Accountability Statement of International Irrigation Management Institute (IIMI) pertaining to its Co-operative Agreement No: 383-0080-A-PG-7040-00 with the United States Agency for International Development, Sri Lanka ("USAID") for the period October 18, 1987 to December 31, 1992 and have issued our report thereon.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to IIMI is the responsibility of IIMI's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of IIMI's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, IIMI complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that IIMI had not complied, in all material respect with those provisions.

This report is intended for the information of IIMI and the U.S. Agency for International Development (A.I.D.). However, upon acceptance by the A.I.D. Office of the Inspector General, this report is a matter of public record and its distribution is not limited.



Colombo
October 14, 1994