

## **Post - Conflict Emergency Assistance for Livelihood Restoration of Resettled Internally Displaced People in the North Project - 2013.**

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The audit of financial statements of the Post-Conflict Emergency Assistance for Livelihood Restoration of Resettled Internally Displaced People in the North Project for the year ended 31 December 2013 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 Section 11 (a) of the Grant Agreement No. JFPR-9150-SRI dated 27 September 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

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

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According to the Grant Agreement, the Ministry of Economic Development is the Executing Agency and the District Secretaries of the Jaffna, Killinochchi, Mullativu, Mannar and Vavuniya Districts are the Implementing Agencies of the Project. The objective of the Project is restoration of livelihood of resettled internally displaced people (IDP) in the North through the provision of temporary income-earning opportunities. According to the Grant Agreement, the estimated total cost of the Project is US\$ 2.79 million and out of that US\$ 2.5 million or 89 per cent of the total cost was agreed to be financed by the Asian Development Bank. Balance amount of US\$ 0.15 million and US\$ 0.14 million are contributed by the Government of Sri Lanka and Communities of the Project respectively. The preliminary works of the Project commenced on 26 October 2010 and the activities of the Project commenced on 01 May 2011. The Project activities were scheduled to be completed by 25 April 2013. However, closing date of the Project was extended up to 28 February 2014.

### **1.3 Activities of the Project**

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According to the Grant Agreement, the activities relating to the Project are summarized below.

- Component A: Rehabilitation and maintenance of field irrigation canals and rural access roads.
- Component B: Skills development for self-employment and improvement of agricultural productivity.
- Component C: Project Administration, implementation support, monitoring and auditing.

### **1.4 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## **2. Scope of Audit and Basic of Opinion**

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My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide and audit coverage as possible within the

limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in the financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. 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 test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Donor 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 the Grant, etc.,
- (c) Whether withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (d) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.
- (i) Whether financial covenants laid down in the Grant Agreement had been complied with.

### **3. Opinion**

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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 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of

affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (c) the funds provided had been utilized for the purpose for which they were provided,
- (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 Grant Agreement,
- (e) the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date, and
- (f) the financial covenants laid down in the Grant Agreement had been complied with.

#### 4. Financial Statements

##### 4.1. Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 148,175,255 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 297,370,880. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and cumulative expenditure as at 31 December 2013 is given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December
	2013	2012	2013
	Rs.	Rs.	Rs.
Civil Works	79,243,900	125,549,800	205,208,400
Equipment, Hardware and Materials	43,650,405	8,294,715	52,420,479
Skills Training, Workshops and Public Campaign	8,095,652	59,625	9,097,929
Project Management	17,185,298	8,943,310	30,644,072
	<b>148,175,255</b>	<b>142,847,450</b>	<b>297,370,880</b>

##### 4.2. Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account for the year 31 December 2013 and the balance available in that account as at that date are summarized below.

	US\$ -----	Rs. -----
Balance as at 01 January 2013	83,685.67	10,641,537
Add: Replenishments	1,109,279.67	143,826,211
Foreign Exchange Gain	-	321,370
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	1,192,965.34	154,789,118
Less: Withdrawals	1,048,198.42	135,860,409
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Balance as at 31 December 2013	<b>144,766.92</b>	<b>18,928,709</b>
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## 5. Audit Observations

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### 5.1. Accounting Deficiencies

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The following observations are made.

- (a) Contribution to the Employees' Trust Fund for the period from July 2011 to June 2013 had been erroneously calculated and as a result, a sum of Rs. 395,432 had been overstated in the financial statements.
- (b) Depreciation had not been provided for the Non-Current Assets of the Project valued at Rs. 3,962,941.

### 5.2. Non-compliance with Laws, Rules and Regulations

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The following instances of non-compliance were observed in audit.

- (a) The Pay As You Earn Tax to be deducted from salaries of three officers of the Project for the period from November 2012 to April 2013, had not been deducted and remitted to the Commissioner General of Inland Revenue.
- (b) Reports in terms of Financial Regulation 104 (4) on damage caused to the motor vehicle attached to the District Project Office in Mannar which met with an accident in July 2013 had not been furnished for audit even up to 31 March 2014.
- (c) The local taxes aggregating Rs. 10,220 had been erroneously charged against the proceeds of foreign grants received for the activities of the Project.
- (d) Annual Board of Survey for the year under review on the non-current assets at 05 District Offices had not been conducted in terms Financial Regulation 756

## 6. Financial and Physical Performance

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### 6.1 Utilization of Funds

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According to the information received, certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at December 2013 are shown below.

<u>Source</u>	<u>Amount agreed to be provided</u>		<u>Budgetary provision for the year 2013</u>	<u>Funds utilized during the year</u>	<u>Funds utilized up to 31 December 2013</u>	
	US\$ Mn	Rs. Mn	Rs. Mn	Rs. Mn	US\$ Mn	Rs. Mn
ADB	2.50	320.90	136.00	135.86	2.21	283.82
GOSL	0.15	19.20	9.00	4.97	0.03	4.97
<b>Total</b>	<b><u>2.65</u></b>	<b><u>340.10</u></b>	<b><u>145.00</u></b>	<b><u>140.83</u></b>	<b><u>2.24</u></b>	<b><u>288.79</u></b>

## 6.2 Physical Performance

The following observations are made.

- (a) Monthly Project Coordinating Committee meetings to be held in terms of paragraph 15 of the Project Administration Memorandum had not been held to enable the monitoring of the activities of the Project.
- (b) An Action Plan identifying the responsibilities of core – staff with targets to be achieved and the budgetary allocations relating to the activities to be carried out during the year under review had not been prepared. Therefore the physical progress of the Project as a whole could not be properly evaluated in audit
- (c) According to the information received, out of 200 kilometres Canals to be completed during the period of the Project in 05 Districts in the Northern Province, the rehabilitation work of 36.31 kilometres of Field Irrigation Canals had only been completed and rehabilitation works of 53.33 kilometres of other canals were in progress as at 31 December 2013. Therefore, the completion of the rehabilitation works of 10.36 kilometres of Canals during the remaining period of the Project is doubtful.
- (d) The improvements of 100 kilometres of Rural Access Roads had been expected to be completed during the period of the Project and out of that improvement works of 28.98 kilometres of such roads had only been completed as at 31 December 2013. Further the Project had taken action to improve 518.3 kilometres of other roads due to high demand of the people in the area even though no financial provisions had been made thereon. The Project Director had explained that the Project can rehabilitate more rural access roads by using funds allocated for irrigation canals, the work of which were not commenced.
- (e) It was expected to provide skills development training for self-employment for at least 2,000 Internally Displaced Persons and out of that, the trainings for 1,758 Internally Displaced Persons only had been provided as at 31 December 2013. However training modules for training on agriculture, animal husbandry, dress making and computer

trainings had not been developed and implemented in five district of the Northern Province.

### **6.3 Assets Management**

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The following observations are made.

- (a) Although fixed assets valued at Rs. 3,962,941 and had been procured by the Project at its inception, a Register of Fixed Asset in terms of Treasury Circular No.842 of 19 December 1978 had not been properly maintained. Further, Board s of Survey on the fixed assets at 05 District Branches had not been conducted. Therefore the physical existence of the fixed assets of the Project could not be verified satisfactorily and accepted in audit.
- (b) An advance of Rs. 500,000 had been paid to the Government Agent, Jaffna on 16 July 2013 to conduct an Animal Husbandry Training Programme in Jaffna District. Subsequently the advance of Rs. 500,000 had been fully settled on 11 September 2013 without being utilized for the intended purpose.
- (c) Cash and bank balance of Rs. 1,167,009 had remained idle in the Bank Accounts of the Project as at 31 December 2013 without utilizing for intended activities of the Project.
- (d) Surcharges for the arrears on contributions to the Employees' Provident Fund aggregating Rs. 927,862 had been paid by the Project for the period from July 2011 to June 2013.

### **6.4 Human Resources Management**

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- (a) The Project had employed officers for 21 posts which were not approved by the Department of Management Services in terms of the Management Services Circular No. 33 of 05 April 2007. Further, 02 other officers had also been appointed contrary to instructions in paragraph 2.2.8 of the said Circular.