

PARTICIPATORY COASTAL ZONE RESTORATION AND SUSTAINABLE MANAGEMENT IN THE EASTERN PROVINCE OF POST-TSUNAMI SRI LANKA PROJECT - 2012.

1. Opinion

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 3 of this report, I am of opinion that,

- a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- b) the funds provided had been utilized for the purposes for which they were provided,
- c) the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- e) the financial covenants laid down in the Grant Agreement had been complied with

2. Financial Statements

2.1 Financial Performance

According to the financial statements and information made available for audit, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 49,373,305 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 86,083,214. The expenditure for the year under review, expenditure for the period from 10 September 2010 to 31 December 2011 and the cumulative expenditure as at 31 December 2012 are summarized below.

<u>Components</u>	<u>Expenditure for the year ended 31 December 2012 Rs.</u>	<u>First Accounting period from 10th September 2010 to 31 December 2011 Rs.</u>	<u>Cumulative Expenditure as at 31 December 2012 Rs.</u>
Technical Assistance Consultancies	3,673,920	207,815	3,881,735
Ecosystem Restoration	18,290,961	6,263,508	24,554,469
Adaptation	12,728,342	2,807,947	15,536,289
Vehicles and Equipment	8,462,530	17,645,185	26,107,715
Operations and Maintenance	6,217,552	9,785,454	16,003,006
Total	<u>49,373,305</u>	<u>36,709,909</u>	<u>86,083,214</u>

2.2 Special Dollar Account

According to the financial statements and information made available, the operations of the Special (Dollar) Account during the year under review and the balance available in that account as at 31 December 2012 are shown below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2012	171,125	19,491,407
<u>Add:</u> Replacement	500,000	66,892,500
Foreign Exchange Loss	_____	<u>(286,583)</u>
	671,125	86,097,324
<u>Less:</u>		
Withdrawals	(349,360)	(45,181,418)
Balance as at 31 December 2012	<u>321,765</u>	<u>40,915,906</u>

3. Audit Observations

Following observations are made.

- a) Although advances should have been settled soon after completion of the relevant transactions, out of six advances aggregating Rs. 601,200, a sum of Rs. 194,045 had been refunded with the delay ranging 2months to 4 months.
- b) Although a sum of Rs. 500,000 had been accounted as expenditure for construction of Green House, it was observed that Rs. 36,064 had been kept in the deposit account of the Vakarai Divisional Secretariat Batticaloa up to 31 December 2012 without being used or returned to the project.
- c) A sum of Rs. 150,000 had been released to Women Rural Development Society, Komathalamadu, Vakarai on 11 November 2012 for Micro-Credit activities. However, Rs. 105,000 only had been paid to 10 people and the balance amounting to Rs.45,000 had been kept in the Women Rural Development Society account without utilizing for the intended purpose.
- d) The agreement No. GEF/IFAD/TRI/DMC/01 had been signed between the Project and the Disaster Management Centre on 06 June 2012 to replace 91 name boards for preventing the emergency disaster condition which to be erected in existing roads, places and Tsunami effectable areas. The Project had agreed to pay Rs. 682,500 for this purpose and Rs. 273,000 had already been paid as an advance. Although, the agreement period was completed, the work had not been completed up to 31 December 2012.
- e) An estimate for dredging of Komari Lagoon had been prepared for Rs. 1,255,480 by the Technical Officer of the Divisional Secretariat, Lahugala and approved by the Engineer of the District Secretary, Ampara. However, as per measurement sheets the actual work done was Rs. 1,088,742 but the payment of Rs. 1,255,480 had been made to the Divisional Secretariat, Pottuvil. The balance amount of Rs. 166,738 had not been recorvered up to 31 December 2012.

- f) Although differences were observed between the notes of the financial statements and expenditure category, these had not been investigated and reconciled as per details given below.

	<u>Note 02 to the</u> <u>Financial</u> <u>statements</u> <u>Rs.</u>	<u>Expenditure</u> <u>Category</u> <u>Rs.</u>	<u>Differences</u> <u>Rs.</u>
Vehicle and Equipment	8,462,530	8,637,011	(174,481)
Operation and Maintenance	6,217,552	6,043,071	174,481

4. Financial and Physical Performance

4.1 Utilization of Funds

The total provision of Rs. 65,000,000 had been made available after taking in the FR 66 variation for the year 2012 under Head 291 Eastern Province. The details of provision, actual expenditure incurred and the percentage of utilization are given below.

<u>Components</u>	<u>Estimated Provision</u> <u>Transferred Under</u> <u>FR66</u> <u>Variation</u> <u>Rs.</u>	<u>Actual</u> <u>Expenditure</u> <u>Rs.</u>	<u>Percentage of</u> <u>Utilization</u> <u>%</u>
Capital Expenditure (13)	60,000,000	45,181,413	75.3
Administration cost and taxes (17)	<u>5,000,000</u>	<u>2,108,220</u>	42.1
Total	<u>65,000,000</u>	<u>*47,289,633</u>	73.7

- * This amount differ from the amount shown in paragraph 4.1 of this report due to exclusion of expenditure of Rs.2,752,021 and liabilities of Rs.109,679 relating to 2011.

4.2 Physical Performance

According to the expenditure statements for the year 2012 made available for audit, the performance of the Project activities as at 31 December 2012 are given below.

The following activities had not been implemented during the year 2012. It represented 22 per cent of the total estimated cost.

<u>Activity No.</u>	<u>Activity</u>	<u>Estimated Cost</u> <u>Rs. Mn</u>
1	Best practices for effective restoration and Sustainable Management	10.2
2	Effective Ecosystem restoration and Conservation Management	16.7
3	Sustainable livelihood and adaptation to climate change vulnerabilities	34.55
Total		<u>61.45</u>

a) The progress of the following activities were less than 1 per cent.

<u>Activity No.</u>	<u>Description</u>	<u>Estimate</u> <u>Rs.</u>	<u>Actual Work done</u> <u>Rs.</u>	<u>Financial Progress</u> <u>%</u>
1.1.2	Update socioeconomic data for the communities involved with restoration of demonstration sites.	6,000,000	39,780	0.6
1.1.3b	Participatory Management of Kinniya Mangrove Forest, Trincomalee.	6,400,000	23,566	0.3
1.1.7b	Providing technical training for the project staff to implement Community Based Disaster Risk Management and climate change adaptation initiatives.	1,000,000	2,000	0.2
2.3.1	Preparation of climate change adaptation for the Eastern Province and support for implementation.	10,200,000	8,718	0.08
3.2.1	Survey and Demarcate the boundaries of the co-management area in consultation with local communities and other key stakeholders.	5,000,000	20,250	0.4
3.2.3a	Establishment of Forest Park at Vakaraai.	4,000,000	38,650	0.9

3.3.1	Survey and Demarcate the boundaries of the co-management area in consultation with local communities and other key stakeholders.	5,000,000	30,000	0.6
3.3.5	Undertake periodic monitoring and evaluation to assess the effectiveness of the management plan and to make changes where necessary.	500,000	3,500	0.7
3.4.4	Provide facilities to demarcation of the Park Boundary and to establish a visitor control facilities.	<u>3,730,000</u>	<u>13,961</u>	<u>0.3</u>
	Total	<u>41,830,000</u>	<u>156,859</u>	<u>0.379</u>

5. **Systems and Controls**

Special attention is needed in respect of the following areas of control.

- (a) Settlement of advances.
- (b) Maintenance of Accounting Records.
- (c) Maintenance of Leave Register.