

**Pro-Poor Economic Advancement and Community Enhancement (PEACE) Project - for the five months period ended 31 May 2013**

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The audit of financial statements of the Pro – Poor Economic Advancement and Community Enhancement (PEACE) Project for the five months period ended 31 May 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 4:7 of Article III of the Loan Agreement No. SLP 77 dated 26 March 2003 and the amendment to the Loan Agreement dated 20 May 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan Bank for International Co – operation (JBIC) presently known as Japan International Co-operation Agency (JICA).

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

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According to the Loan Agreement of the Pro – Poor Economic Advancement and Community Enhancement (PEACE) Project, the Ministry of Economic Development is the Executing Agency of the Project and the Northern and Eastern Provincial Councils are the implementing agencies of the Project. The objective of the Project is to assist the North and East Provinces in carrying out the rehabilitation of major and medium irrigation schemes. As per the Loan Agreement, the estimated total cost of the Project is JPY 2,003 million equivalent to Rs. 2,661 million and out of that JPY 1,633 million was agreed to be financed by JICA. The Project commenced its activities on 26 March 2003 and was scheduled to be completed by March 2010. However, the implementation of the Project activities got delayed over two years and finally this Project was suspended on 01 May 2005 and recommenced in 2006. Subsequently the period of completion was extended up to 22 May 2013, and a grace period of 03 months from the date of completion was given to finalize the Project.

**1.3 Responsibility of the Management for the Financial Statement**

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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 Basis 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 an 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 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 control 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 lending 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 Loan, etc.

- c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- d) Whether the funds, materials and equipment supplied under the Loan 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 initial advance, withdrawals from and the 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 May 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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, and
- i) Whether financial covenants laid down in the Loan 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 five months period ended 31 May 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 May 2013 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 Imprest Fund Account during the five months period ended 31 May 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 May 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the statement of expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- f) the financial covenants laid down in the Loan agreement had been complied with.

#### **4. Financial Statements**

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##### **4.1 Financial Performance**

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According to the financial statements and information made available, the expenditure of the Project for the period under review amounted to Rs.43,094,741 and the cumulative expenditure as at 31 May 2013 amounted to Rs.2,548,256,695. The following statement shows a summary of expenditure for the period under review, the expenditure for the previous year and the cumulative expenditure as at 31 May 2013.

Category of Expenditure	Expenditure for the five months period ended 31 May 2013	Expenditure for the year ended 31 December 2012	Cumulative Expenditure as at 31 May 2013
-----	----- Rs.	----- Rs.	----- Rs.
Civil works	18,178,608	219,539,496	1,704,277,681
Vehicles and equipment	9,500	102,513	139,748,860
Consultancy services	Nil	80,319,037	361,467,646
Social mobilization	Nil	Nil	9,470,530
Training	Nil	Nil	4,306,573
Livelihood assistance	Nil	926,121	43,810,184
Settlement of Advances	Nil	(15,258,351)	Nil
Project Management cost	5,390,703	25,563,801	149,234,799
Interest and service charges	19,515,930	47,025,500	135,940,422
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	<b><u>43,094,741</u></b>	<b><u>358,218,117</u></b>	<b><u>2,548,256,695</u></b>

#### 4.2 Imprest Fund Account

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According to the accounting records maintained by the Project, the operations of the Imprest Fund Account maintained for the purpose of the Project during the five months period under review is summarized below.

	Japan Yen	Rs.
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Balance as at 01 January 2013	9,046,113	13,387,343
<b>Add:</b> Replenishments	3,393,264	4,761,198
Foreign Exchange Gain/ (Loss)	-	(825,037)
	<b><u>12,439,377</u></b>	<b><u>17,323,504</u></b>
<b>Less:</b>		
Withdrawals	<u>(12,439,377)</u>	<u>(17,323,504)</u>
<b>Balance as at 31 May 2013</b>	<b><u>Nil</u></b>	<b><u>Nil</u></b>

**5. Audit Observation**  
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A sum of Rs. 20,054 had been shown as exchange rate difference in the Financial Statements for the year under review. However the details of the exchange rate difference had not been made available for audit.

**6. Financial and Physical Performance**  
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**6.1 Utilization of Funds**  
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According to the financial statements and information made available, the total provision, the actual expenditure and the percentage of utilization of funds during the five months period ended 31 May 2013 are given below.

	<b>Estimated Provision</b>	<b>Actual Expenditure</b>	<b>Percentage of Utilization</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>
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Consolidated Fund	20,000,000	9,868,043	49.34
Reimbursable Foreign Aid - Loan	75,000,000	36,839,436	49.12
	<u><b>95,000,000</b></u>	<u><b>46,707,479*</b></u>	<u><b>49.16</b></u>

\* This amount differ from the amount shown in paragraph 4.1 of this report due to inclusion of the retention money paid for the previous year totaling Rs. 3,612,738

**6.2 Performance Review**  
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Following Observations are made relating to the rehabilitation works of the project as at 31 May 2013.

(a) Financial progress on Rehabilitation of Irrigation Schemes

Name of Tank	District	Total Allocation	Contract Amount	Actual Expenditure up to 31 May 2013	Expenditure as a percentage of contract Amount %
		Rs. (Mn)	Rs. (Mn)	Rs. (Mn)	
<b><u>Northern Province</u></b>					
Mamaduwa	Vavuniya	50.00	49.02	48.88	99.71
Nampankulam	Vavuniya	29.00	28.98	28.55	98.52
Thadchanamaruthamadu	Mannar	51.00	50.90	50.89	99.98
Akkarayan Kulam	Kilinochchi	400.00	401.00	399.10	99.52
Thenniyam	Mullaithivu	93.50	94.00	93.56	99.53
Akathimurippukulam	Mannar	162.00	320.35	161.90	50.54*
<b><u>Eastern Province</u></b>					
Borapola	Ampara	42.00	41.63	41.30	99.21
Morawewa	Trincomalee	267.80	267.56	267.49	99.97
Kurangupanchan	Trincomalee	50.00	49.61	49.58	99.94
Puluganawi	Batticaloa	<u>394.92</u>	<u>395.76</u>	<u>396.28</u>	100.13
<b>Total</b>		<b><u>1,540.22</u></b>	<b><u>1,698.81</u></b>	<b><u>1537.53</u></b>	90.51

\* The Anuradapura and Kurunagala component of the Akathimurippukulam scheme had been handed over to the Central Irrigation Department on March 2011.

(b) Physical progress on Rehabilitation of Irrigation Schemes as at 31 May 2013

Name of Tank	Irrigable Area (ha)	No. of Beneficiary Families	No. of Contract Packages		
			Target Nos.	Completed	Partly Completed and Terminated
<b><u>Northern Province</u></b>					
Mamaduwa	267	285	10	6	4
Nampankulam	104	49	10	8	2
Thadchanamaruthamadu	215	175	8	8	-
Akkarayan Kulam	1,358	1,139	84	68	16
Thenniyan	344	340	18	18	-
<b><u>Eastern Province</u></b>					
Borapola	200	625	10	8	2
Morawewa	1,636	1,600	64	50	14
Kurangupanchan	202	254	13	9	4
Puluganawi	1,755	750	63	50	13
<b>Total</b>	<b><u>6,081</u></b>	<b><u>5,217</u></b>	<b><u>280</u></b>	<b><u>225</u></b>	<b><u>55</u></b>

After seven and half years from the commencement of the Project, a sum of Rs. 1,538 million or 90.51% of total allocation on rehabilitation of irrigation schemes had been utilized by the Project. However out of the target of 280 contract packages, only 225 packages or 80.35% of the target had been fully completed as at the end of 31 May 2013.