

The Small and Medium Enterprises Development Facility Project - 2010.

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 eight months period ended 31 December 2010 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2010 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided with, and
- (c) the financial covenants laid down in the Credit Agreement had been complied with.

2. Financial Statements

2.1 Financial Performance

According to the financial statements presented, the expenditure of the Project for the eight months period ended 31 December 2010 amounted to Rs. 5,179,191. The following statement shows a summary of expenditure for the eight months period under review.

Particulars	Expenditure for the eight months period ended 31 December 2010
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Rs.

Capital Expenditure

----- Refundable deposit- dispensers	Water
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37,400

Operating Cost

Personal Emoluments	3,949,823
Consultancy Fee	432,151
Office Expenditure	178,730
Motor Vehicle Maintenance	362,764
Stationery	69,857
Transport and Travelling	44,887
Communications	103,579

Total	5,179,191
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3. Audit Observations

The following observations are made.

3:1 Understatements in the Accounts

According to the Appropriation Account for the year 2010 presented for Head 243 ó Department of Development Finance, the actual expenditure of the Project amounted to Rs.5,392,136 whereas according to the financial statements presented for 08 months period ended 31 December 2010 the expenditure of the Project amounted to Rs.5,179,191, thus indicating an understatement of Rs.212,945.

3:2 Maintenance of Ledgers

Ledgers had not been maintained to confirm the balances shown in the financial statements presented for the period under review and a Trial Balance had also not been prepared.

3:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed during course of audit are given below.

Reference to Laws, Rules, Non-compliance
Regulations, etc

The Management Services
Circular No. 33 of 05 April
2007

- (i) Paragraph 2.2.1 According to the Appraisal Report, a Finance Manager on full-time basis should be appointed to the Project. Nevertheless, a Finance Manager had been appointed on the basis of duties in addition to the Accountant of National Council for Economic Development.
- (ii) Paragraph 2.2.9 The personal files had not been maintained in the updated manner to establish the educational and professional qualifications, experience and the skills of the Project Staff and the certificates filed in the personal files were not the certified copies.
- (iii) Paragraph 4.1.3 Three officers who were appointed to the Project on the basis of duties in addition to their presents duties had been paid the full salary relating to the respective posts in the Project. In addition to the salary the contributions to the G o r n q { g g u ø " R t q x k f g I G o r n q { g g u ø " V t w u v " H w Accordingly the overpayment made for the period from June to December 2010 amounted to Rs.1,314,470.

4. Performance

4:1 Underutilisation of Provisions

In view of the delay in signing the Credit Agreement of the project the following provisions made in the Budget Estimates for the year 2010 had been saved.

- (a) The net provision of local funds amounted to Rs.10,000,000 and the expenditure incurred amounted to Rs.5,179,191 and as such the unspent provisions amounted to Rs.4,820,809 or 48 per cent of the provision made.
- (b) The entire net provision of the foreign funds amounted to Rs.99,750,000 had been saved.
- (c) Ten items valued at Rs.19,300,000 planned to purchase in the period under review according to the Procurement Plan had not been procured.

5. Presentation of Accounts

According to Section II(B) of Schedule 2 of the Credit Agreement No. 4804-LK the Project Implementation Unit should submit the audited financial statements to the IDA within 06 months after the close of the financial year. Nevertheless the financial statements for the period of 08 months ended 31 December 2010 had been presented for audit only on 23 February 2012. According to Section 43 of the Mission Report from 08 to 17 August 2011, it had been agreed to submit the first audited financial statements by 30 June 2012 as there was no Project expenditure under the foreign funded for the financial year 2010.

6. Systems and Controls

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

- (a) Maintenance of Ledger Accounts
- (b) Maintenance of Daily Running Charts and Log Books for Motor Vehicles
- (c) Personal Files