

## **Emergency Northern Recovery Project (ENReP) - 2013.**

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The audit of financial statements of the Emergency Northern Recovery Project (ENReP) 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 II B of the Schedule 2 of the Financing Agreement No.4676-LK dated 11 January 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

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

According to the Financing Agreement of the Project, the Ministry of Economic Development is the executing agency and the Northern Provincial Council is the implementing agency of the Project. The Project is being implemented through a Project Management Unit (PMU) established at the central of the Northern Province and the District Management Implementation Cells established in each district of the Northern Province. The objective of the Project is to support the Government of Sri Lanka's efforts to rapidly return Internally Displaced Persons (IDPs) to their original places of residence in the Northern Province and restore their social and economic life. As per the Financing Agreement, the total estimated cost of the Project is SDR 40.9 million and the full amount was agreed to be financed by the IDA. The Project commenced its activities on 11 January 2010 and was scheduled to be completed by 31 December 2012. Subsequently, the period of the Project had been extended up to 31 December 2013.

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

According to the Financing Agreement of the Project consisting 3 main Parts. i.e. Part A, C and D. Activities relating to those three Parts of the Project are summarized below.

#### **Part A: Emergency Assistance to Returnees**

Support to Returnees in their effort to re-engage in livelihood sustaining activities such as assist in the resolution of land disputes,

carrying out of demining awareness programmes for returnees, Project staff and contractors, prepare the land for cultivation, providing seeds for agriculture and fishing implements.

**Part C: Rehabilitation and Reconstruction of Essential Public and Economic Infrastructure Facilities**

Implementation of a programme to repair, reconstruction and restoration of vital public and economic infrastructure and facilities damaged by armed conflict with a view to re-establishing inter-village connectivity and providing access to schools, health clinics, markets, safe drinking water and essential public services and facilities.

**Part D: Project Management, Oversight, Monitoring and Evaluation and Special Studies.**

Support to the Recipient in the areas of Project management, coordination and monitoring, acquisition of vehicles and office equipment, and rehabilitation of facilities, provision of technical assistant for construction supervision and quality assurance of the works described under part C of the Project, and carrying out of audit, surveys, consultations, monitoring and evaluation studies, comprehensive needs assessments, strategic and feasibility studies, and special studies required to improve the development effectiveness of the project, as well as the future long-term development of the Northern Province.

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

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 estimates.

**2. Scope of Audit and Basis of Opinion**

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 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, transaction assets and liabilities as deemed necessary to assess the followings.

- (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 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 Financing 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 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 (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 the financial covenants laid down in the Financing Agreement had been complied with.

### 3. **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 the 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,
- (b) the funds provided had been utilized for the purposes for which they were provided;
- (c) the opening and closing balances, withdrawals from and the 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 (CBSL) as at that date,

- (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 Financing 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 Financing 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. 1,407,440,114 and cumulative expenditure as at 31 December 2013 amounted to Rs. 7,161,433,693. A summary of the expenditure of the Project for the year under review, expenditure for the proceeding year and the cumulative expenditure as at 31 December 2013 is given below.

<b>Item of Expenditure</b>	<b>Expenditure for the year ended 31 December</b>		<b>Cumulative Expenditure as at 31 December 2013</b>
	<b>2013 Rs</b>	<b>2012 Rs</b>	<b>Rs</b>
<b>Part: A</b>			
Emergency Assistance to the IDPS			
Civil works	4,620,885	37,008,486	245,930,135
<b>Part: C</b>			
Rehabilitation and Reconstruction of Essential Public and Economic Infrastructure and Facilities	1,346,649,758	2,238,231,002	6,548,228,931

**Part: D**

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Project Management Oversight Monitoring & Evaluation and Special Studies.	56,169,471	86,325,252	367,274,627
<b>Total</b>	<b>1,407,440,114</b>	<b>2,361,564,740</b>	<b>7,161,433,693</b>
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**4.2 Imprest Fund Account**

According to the financial statements and information made available, the operations of the Imprest Fund Account for the year ended 31 December 2013 are summarized below.

	<u>US\$</u>	<u>Rs.</u>
Opening Balance as at January 2013	9,281,722	1,180,271,244
Add: Replenishments	4,110,444	536,705,562
Foreign Exchange Gain	-	5,164,711
	----- 13,392,166	----- 1,722,141,517
Less: Withdrawals	11,358,438	1,456,225,395
Balance as at 31 December 2013	----- <b>2,033,728</b>	----- <b>265,916,122</b>
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**5. Audit Observation**

The balance remaining in the Imprest Fund Account at the end of the year had been treated as the loan proceeds instead of being shown as current liabilities in the Balance Sheet.

**6 Financial and operating Review**

**6.1 Utilization of Funds**

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2013 are shown below.

Source	Amount agreed to be financed as per Financing Agreement		Allocation made in the Annual Budget for 2013	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	USD	Rs	Rs	USD	Rs	USD	Rs
	Mn	Mn	Mn	Mn	Mn	Mn	Mn
IDA	65	7,510	1,450	11.13	1,435	59.69	7,112
GOSL	-	-	-	-	2	-	12
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<b>Total</b>	<b>65</b>	<b>7,510</b>	<b>1,450</b>	<b>11.13</b>	<b>1,437*</b>	<b>59.69</b>	<b>7,124*</b>
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\* These figures are not agreed with the amounts shown in the Section 4.1 of this report due to accounting of accrued expenses

### 5.1.2 Physical Performance

Following observations are made.

- (a) It was observed that 43 civil work contracts awarded at a cost of Rs 8106.07 million from 2010 to 2013 had been terminated subsequently due to poor performance of the contractors. However, a sum of Rs. 6499.73 million had been paid to the respective contractors at the time of termination of the respective contracts. According to the Project Director, action had been taken to re-award the contracts to complete the works. However, according to the progress reports of the Project as at 31 December 2013, the rehabilitation and reconstruction of roads, buildings and irrigation schemes in Jaffna, Killinochchi, Mullaithivu, Vavuniya and Mannar Districts had remained uncompleted without taking adequate action to re- award.
- (b) The site visits made during the course of audit had revealed that the buildings constructed at Agrarian Service Centre and fertilizer store constructed at Marichchukkaddy in Mannar District and tractor garage constructed at the

Training Centre at Nedunkerny had remained idle without being utilized for intended purposes.

- (c) Although some of the defects had been observed at the field inspection made in February 2014 at buildings reconstructed for community center at Nedunkerny, Co-operative society sales outlet and office building for Divisional Secretary at Muruthankerny, no action had been taken to rectify even after settlement of all the dues to the contractors.

**6. Systems and Controls**

Special attention is needed for the following areas of control.

- (a) Accounting
- (b) Contract Administration