

## **Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post-Tsunami Sri Lanka Project - 2014**

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The audit of financial statements of the Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post – Tsunami Sri Lanka Project for the year ended 31 December 2014 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 5.02 of Article V of the Grant Agreement No. GEF-FSP-5-LK dated 23 July 2009 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development.

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

According to the Grant Agreement, then Ministry of Fisheries and Aquatic Resources is the Executing Agency and the Coast Conservation & Coastal Resources Management Department is the Implementing Agency of the Project. However, according to the amendments made to the Grant Agreement on 04 April 2012, the new Executing Agency of the Project was the Ministry of Defense and Urban Development. Presently, the activities of this sector had been transferred to the Ministry of Mahaweli Development and Environment. The objective of the Project is to mainstream restoration and management conservation of globally important eco systems affected by Tsunami into the reconstruction process to support sustainable livelihoods and reduce vulnerability to climate change along the east coast of Sri Lanka. As per the Grant Agreement, the estimated total cost of the Project was US\$ 14.84 million, which comprised with Global Environmental Facility financing of US\$ 7.27 million and Co-financing of US\$ 7.57 million with the contributions of US\$ 430,300 from the Government of Sri Lanka, US\$ 7,083,650 from the International Fund for Agricultural Development and US\$ 55,500 from the World Conservation Union. The Project commenced its activities on 10 September 2010 and scheduled to be completed by 10 September 2015. Subsequently, the Project period was extended up to 10 September 2016.

### **1.3 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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) 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 purchases made out of the Grant, etc.
- (d) Whether withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (e) Whether the funds, materials and equipments supplied under the Grant had been utilized for the purposes of the Project.

- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (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 Grant Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreement.
- (d) the 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

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiency**

The value of ongoing works as at 31 December 2014 amounted to Rs.18,217,174 had been shown in the financial statements as works completed.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, utilization of funds during the year under review and up to 31 December 2014 are as shown below.

Source	Amount agreed to be financed according to the Grant Agreement		Fund utilized			
			during the year under review		as at 31 December 2014	
	US\$	Rs.	US\$	Rs.	US\$	Rs.
	million	million	million	million	million	million
IFAD	14.41	1,929.10	1.33	174.19	2.61	374.06
GOSL	<u>0.43</u>	<u>55.90</u>	<u>0.04</u>	<u>5.62</u>	<u>0.11</u>	<u>14.70</u>
<b>Total</b>	<b><u>14.84</u></b>	<b><u>1,985.00</u></b>	<b><u>1.37</u></b>	<b><u>179.81</u></b>	<b><u>2.72</u></b>	<b><u>388.76</u></b>

The following observations are made in this regard.

- (a) According to the Work Plan prepared by the Project, a sum of Rs. 920.97 million had been allocated for the activities of the Project expected to be carried out during the period from 2010 to 2014. However, a total sum of Rs.388.76 million representing 42 per cent of the allocation had only been utilized up to the end of the year 2014.
- (b) Out of a sum of Rs.32.55 million allocated for the year 2014 to implement 12 activities under 03 sub- activities, no such allocation had been utilized entirely. Further, the Restoration of Ecosystem is the major Component of the Project and a sum of Rs. 528.66 million equivalent to US\$ 4.10 million had been allocated for this Component and out of that only a sum of Rs.151 million had been spent up to 31 December 2014. However, the cost incurred on procurement of vehicle and equipment had exceeded the total allocation by 21 per cent.
- (c) As an overall view, US\$ 2.61 million had only been utilized out of US\$ 14.41 million allocated by the International Fund for Agricultural Development for the activities of the Project even after lapse of 06 years as at 31 December 2014.

### 3.2 Physical Progress

The Grants under the Project had been allocated under the key components of technical assistances, ecosystem restoration and adoption programs for reduction of vulnerability of ecosystem and communities for extreme climate changes. Further, 71 sub-activities were expected to be carry out and out of that only 61 sub- activities had been commenced as at 31 December 2014. The following observations on some of the activities implemented are made.

- (a) According to the Annual Work Plan for the year 2014, a sum of Rs.6.00 million had been allocated to erect 150 display boards for awareness creation

under the Ecosystem Restoration and Adoption Program. However, a total sum of Rs.1.40 million had been spent during the year under review to erect only 35 display boards in Ampara, Batticaloa and Trincomalee districts.

- (b) Even though sums aggregating Rs. 11.50 million had been allocated in the Annual Work Plan to develop guidelines and provide facilities to Ecosystem Adoption and Restoration Unit under Ecosystem Restoration Program, such works had not been commenced even at the end of the year under review. However, the above activities had been shown as completed works in the progress report for the year under review.
- (c) The Project had entered into an agreement with the Pradeshiya Sabha, Kuchchaveli during the year under review to develop the waste management facility at Nilaveli at a cost of Rs.22.04 million. The following observations are made in this regard.
  - (i) According to the contract agreement, entire works should have been completed by the contractor before 14 April 2015. However, the works for which a sum of Rs. 11.90 million allocated for the construction of security room, compost store, resting room and toilets etc, had not been commenced even as at 30 June 2015.
  - (ii) The entire contract sum of Rs.561,600 for erection of chain link wire mesh to GI pipe around the premises including two coats of anticorrosive painting and enamel painting to the welded exposes had been released to the contractor eventhough two coats of painting was not carried out.