

Post Tsunami Coastal Rehabilitation and Resource Management Programme - 2014

The audit of financial statements of the Post Tsunami Coastal Rehabilitation and Resource Management Programme 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(a) of Article V of the Loan Agreement No. 664-LK of 01 December 2005 and Section 3.01 of Article V of the Loan Agreement No. 693-LK of 18 April 2008 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Fund for Agricultural Development (IFAD).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements of the Programme, the Ministry of Fisheries and Aquatic Resources Development is the Implementing Agency of the Programme. The objectives of the Programme are; the provision of essential social and economic infrastructure, particularly in housing and strengthening of Tsunami affected communities and substantially managing coastal resources and increasing the women's participation in social and economic activities. According to the Loan Agreements, the estimated total cost of the Programme is US\$ 36.14 million and out of that US\$ 31.35 million equivalent to Rs.3,386.8 million or 86.7 per cent was agreed to be financed by the IFAD. The Programme commenced its activities on 06 March 2006. Eventhough the period of the Loans was closed on 31 March 2014, the activities of the Project were continued upto 30 April 2014 and the financial statements had been presented for the year ended 31 December 2014.

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 Programme'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 Programme'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 Programme management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identification of the purchases made out of the Loans, etc.
- (d) Whether withdrawals under the Loan had been made in accordance with the specification laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipments supplied under the Loans had been utilized for the purposes of the Programme.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (h) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.

- (i) Whether 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 Loan Agreements.
- (j) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the financial covenants laid down in the Loan Agreements 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 Programme 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 Programme as at 31 December 2014 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purpose for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2014 had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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 Loan Agreements,
- (e) the 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 Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

According to the Clause 05.01 of the Loan Agreement, the financial statements of the Programme is required to be presented for audit within 03 months after the financial year. However, the financial statements for the year ended 31 December 2014 had been presented for audit only on 26 January 2016.

3. Financial and Physical Performance

3.1 Utilization of Funds

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

Sources	Amount agreed for finance in the Loans Agreement		Budgetary Provision for the Year 2014	Funds utilized		
	US\$ million	Rs million		Rs. million	US\$ million	Rs. million
IFAD	31.35	3,386.81	27.20	26.45	31.05	3,741.34
GOSL	4.37	471.96	5.00	2.30	1.46	157.19
Beneficiary Contribution	0.42	45.67	-	-	0.19	20.78
Total	<u>36.14</u>	<u>3,904.44</u>	<u>32.20</u>	<u>28.75</u>	<u>32.70</u>	<u>3,919.31</u>

The following observations are made.

- (a) It was observed that the actual cost incurred on certain activities had considerably exceeded the allocation made thereon whilst compensating those excess for other activities of the Programme. However, relevant approvals from Lending Agency for such changes of allocation were not made available to audit. Details of such excess are given below.

Component	Funds Allocated	Utilization of Funds as at 31 December 2014	Excess over Allocation	Percentage of Excess
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	US\$	US\$	US\$	
Civil Works	19,647,750	22,420,120	2,772,370	14.11
Contracts with Service Providers	462,300	832,081	369,781	79.98
Salaries and Allowances	1,849,200	2,154,516	305,316	16.51

- (b) Out of the funds allocated under Loans No.664 LK and 693 LK for non repayable grants for Micro Enterprises for Women, only sums of US\$ 470,548 representing 68 per cent and US\$ 99,481 representing 5 per cent of the allocation respectively had been utilized by the Programme.

3.2 Physical Progress

The following observations are made.

- (a) According to the Project Completion Report, the physical progress under 07 activities implemented under the Social Economic Infrastructure Component of the Programme had remained in the range of 33 per cent to 84 per cent at the end of the period of the Programme.
- (b) The plans had not been prepared and implemented to achieve the objectives of Substantially Managing Coastal Resources Component of the Programme.