

## **Global Facility for Disaster Reduction and Recovery Support to Mainstream Disaster Risk Management in Sri Lanka Project - 2015**

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The audit of financial statements of the Global Facility for Disaster Reduction and Recovery Support to Mainstream Disaster Risk Management in Sri Lanka Project for the first accounting year ended 31 December 2015 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 2.07 (b) of the Standard Condition of Grant Agreement No. TF-016699 dated 11 July 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

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

According to the Grant Agreement of the Project, the Ministry of Disaster Management is the Executing Agency and Disaster Management Center and the National Building Research Organization are the Implementing Agencies of the Project. The objectives of the Project is to build the technical capacities of the Ministry of Disaster Management and the agencies under its purview and the relevant stakeholders identified to assess, quantify and to formulate appropriate policy and operational responses to address the disaster risks. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 420,000 equivalent to Rs.54.6 million was agreed to be provided by the International Development Association. The Project commenced its activities on 06 June 2014 and scheduled to be completed by 05 June 2015. Subsequently, the period of the Project had been extended up to 31 December 2015.

### **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 identifications of the purchases made out of the Grant, etc.
- (d) Whether the initial advance, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (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 the opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the

Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial advance, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 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 Grant Agreement,
- (e) the financial covenants laid down in the Grant Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Presentation of Financial Statements**

The financial statements for the year under review which required to be submitted on or before 31 March 2016 had been submitted for audit only on 22 June 2016.

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

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the first accounting year ended 31 December 2015 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year under review	Fund utilized as at 31 December 2015	
	US\$	Rs. million	Rs. million	US\$	Rs. million
IDA	420,000	54.60	52.50	87,630	12.36

The following observations are made.

- (a) A designated Bank Account in a local Commercial Bank could not be able to open during the period specified by the Donor Agency due to changes of responsibilities of the Line Ministries and as a result, the activities of the Project had been commenced with delays in February 2015. Therefore, US\$ 87,630 equivalent to Rs. 12.36 million had only been

utilized upto 31 December 2015, out of total allocation of US\$ 420,000 equivalent to Rs. 54.60 million. The unspent proceeds of Grant of US\$ 152,870 equivalent to Rs. 21.99 million, out of the initial advance of US\$ 240,500 equivalent to Rs. 34.09 million received to the Project had been refunded to the International Development Association on 03 February 2016 without utilizing intended purpose of the Project.

- (b) Eventhough a detailed Action Plan had been prepared covering the entire Project period by highlighting financial and physical targets in quarterly manner and a mechanism was establish for monitoring purposes, the respective Plan and mechanism were not utilized as proper instruments of control to measure the progress of the Project and expedite the activities of the Project, as enable to utilize the proceeds of the Grant within the specific period of Project.

### **3.2 Physical Progress**

According to the detailed Action Plan of the Project, the activities of the Project were expected to be implemented under 04 components namely disaster risk assessment of the cities in the Eastern Province of Sri Lanka, landslide risk management, capacity building of the staff of the agencies under the Ministry of Disaster Management and project implementation and monitoring purposes. It was observed that the activities on development of disaster management risk assessment of the cities in the Eastern Province of Sri Lanka and developing of a comprehensive training program in key areas of disaster management such as post disaster needs assessment and early warning system etc, had not been implemented due to slowness of the implementation of the Action Plans. However, the works on development of a landslide early warning system had been completed on 15 December 2015 and 15 automated rain gauges had been installed during the period of the Project at a cost of Rs. 12.05 million in the landslide proven districts of Ratnapura and Monaragala.