

Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post-Tsunami Sri Lanka Project - 2015

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 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 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 (IFAD).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, the Ministry of Fisheries and Aquatic Resources is the Executing Agency and the Department of Coast Conservation and Coastal Resource Management is the Implementing Agency of the Project. However, according to the amendments made to the Grant Agreement on 04 April 2012, the Ministry of Defence and Urban Development had been named as the Executing Agency of the Project. Subsequently, the activities of the Project 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 ecosystems 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 amounted to 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 contribution of US\$ 7.08 million from the International Fund for Agricultural Development, US\$ 0.06 million from the World Conservation Union and US\$ 0.43 million from the Government of Sri Lanka. The Project commenced its activities on 10 September 2010 and scheduled to be completed by 10 September 2015. Subsequently, the period of the Project was extended up to 31 December 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 and the International Fund for Agriculture Development Guidelines for Project Audits. 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 Agencies, 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 the opening and closing balances and 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 withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipments 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- (j) 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 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 and the IFAD Guidelines for Project Audits,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and 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 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 Grant Agreement had been complied with.

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 year under review and up to 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			
	US\$ million	Rs. million		US\$ million	Rs million	US\$. million	Rs. million
Donor Agencies	14.41	1,929.10	270	1.33	180.63	4.04	528.26
GOSL	0.43	55.90	30	0.04	6.22	0.15	20.80
Total	<u>14.84</u>	<u>1,985.00</u>	<u>300</u>	<u>1.37</u>	<u>186.85</u>	<u>4.19</u>	<u>549.06</u>

According to the above information, out of the total proceeds of Grant of US\$ 14.41 million equivalent to Rs. 1,929.10 million allocated by the Granting Agencies, only a sum of US\$ 4.04 million equivalent to Rs 528.26 million had been utilized up to 31 December 2015 by the Project after lapse of 05 years from the date of commencement of the activities of the Project. Therefore, the possibility of utilization of the proceeds of the Grant during the remaining period of 01 year of operation is remained doubtful.

3.2 Physical Progress

The key activities of the Project comprised with the development and demonstration of best practices for effective restoration and sustainable management of key coastal ecosystems, mainstreaming effective ecosystem restoration and sustainable management, empowerment of coastal communities and learning, evaluation and adoption management. Therefore, 71 sub activities were expected to be carried out under the above mentioned key activities and out of that, only 60 sub activities had been commenced as at 31 December 2015. The following observations are made on the sub activities implemented up 31 December 2015.

- (a) The Project had constructed an Eco Park at Vaharai at a total cost of Rs.3.4 million and handed over to the Divisional Secretary of Vaharai in Batticaloa District on 26 December 2014. However, the Park had not been utilized for the intended purpose of demonstrations for the people living in the area on restoration of ecosystem.
- (b) A sum of Rs.1.80 million remitted to the Divisional Secretariat of Vaharai on 29 September 2015, out of a total estimated cost of Rs.9 million allocated for the construction of 36 Agro wells in Vaharai area in order to make part payment to the selected beneficiaries had been deposited in a Samurdhi Bank Account even up to 31 May 2016 without being utilized for intended purpose.

- (c) The Project had awarded 03 contracts at an estimated total cost of Rs. 31.7 million to erect 12,800 concrete pillars around the Batticaloa Lagoon covering the area of 09 Divisional Secretariat Divisions, under the sub activity of demarcation of Batticaloa Lagoon. However, only 5,759 concrete pillars had been erected up to 30 April 2016, eventhough the demarcation activities were expected to be completed by 30 June 2015.
- (d) The sub activity on strengthening of Lagoon Management Committee in Kokkilai to be carried out under the allocation amounting to Rs.17 million had subsequently been abandoned, due to unavailability of a suitable plot of land for the construction of a building for the Lagoon Fishery Society. Further, the sub activity implemented on rain water harvesting for the people in Kuchchaveli area under the allocation of Rs.4 million was also abandoned, as the beneficiaries had rejected to use of concrete water tanks designed for the purpose.
- (e) Eventhough the Project had spent a sum of Rs. 7.2 million up to the end of the year under review to develop Integrated Solid Waste Management System for the Urban Council of Kinniya, had not been implemented by the Urban Council satisfactorily due to lack of assets such as tractors and compactors to transport garbage.