

Second Sri Lanka Flood and Landslide Disaster Response Project - 2017

The audit of financial statements of the Second Sri Lanka Flood and Landslide Disaster Response Project for the first accounting period from 09 June 2017 to 09 March 2018 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 Article IV – Section 4.01 of the Grant Agreement No. 0533 dated 09 June 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Project, then Ministry of Home Affairs, presently Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and 08 District Secretariats in the Western , Southern and Sabaragamuwa Provinces are the Implementing Agencies of the Project. The objective of the Project is to provide life preserving services for communities affected by the flood and landslide disaster in May 2017. As per the Grant Agreement, the estimated cost of the Project amounted to US\$ 02 million equivalent to Rs.307.46 million and the total cost was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 09 June 2017 and scheduled to be completed by 09 December 2017. Subsequently, the period of the Project had been extended up to 09 March 2018.

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 judgment, 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 withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (e) Whether the funds, materials and equipment 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, and
- (h) Whether the financial covenants laid down in the Grant Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in Paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the financial statements give a true and fair view of the state of affairs of the Project as at 09 March 2018 in accordance with Generally Accepted Accounting Principles,
- (b) the Statement of Expenditure submitted could be fairly relied upon to support the application for reimbursement in accordance with the requirements specified in the Grant Agreement
- (c) the funds provided had been utilized for the purposes for which they were provided,
- (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 Policies

The activities of the Project had been implemented by 08 District Secretaries in the Western, Southern and Sabaragamuwa Provinces and allocations of funds amounting to Rs 287.98 million had been transferred directly to the respective District Secretaries by the Treasury Operations Department. Therefore, the financial statements of the Project for the period under review had been prepared on memorandum basis by the Ministry of Internal and Home Affairs and Provincial Councils and Local Government based on information collected from the District Secretaries.

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 period under review and up to 09 March 2018 are shown below.

Source	Amount agreed for financing according to the Grant Agreement		Funds utilized during the period under review as at 09 March 2018	
	US\$ million	Rs. million	US\$ million	Rs. million
ADB	2.00	307.46	1.87	287.98
	<u>2.00</u>	<u>307.46</u>	<u>1.87</u>	<u>287.98</u>

It was observed that a balance of US \$ 126,698 equivalent to Rs 19.477 million had remained unspent at the closing date of the operations of the Project as at 09 March 2018. According to the information received, only the balance of US \$ 111,212 had been refunded to the Donor Agency on 08 November 2018.

3.2 Physical Progress

According to the information received, the activities of the Project scheduled to be implemented under 10 key activities under the procurement of emergency rescue equipment, medical kits, foods, water purification and sanitation systems, transitional shelters, personal hygiene kits, and emergency communication equipment, and debris shifting, site clearance, safe disposal of useless rubble and other activities had been completed through District Secretaries as at 09 March 2018. However, no Project Completion Report had been prepared and presented thereon.

3.3 Contract Administration

The Project awarded contracts to construct 17 Transitional Shelters in Kalutara, Galle Ratnapura, Matara and Kegalle districts and the following observations are made thereon.

- The works under the contract for the construction of a Transitional Shelter in Ratnapura District awarded at an estimated cost of Rs.11.55 million had been completed on 07 March 2018 with delays in 102 days from the date agreed to be completed on 25 November 2017.

- b) It was observed at the site inspection made on 21 December 2018, the drinking water well constructed at the Transitional Shelter at Palinda Nuwara in Kalutara district had remained unutilized, as the quality of water is not suitable for drinking purposes. Further, it was observed that the adequate sanitary and water supply facilities had not been provided for the Transitional Shelter constructed at Wellangalla Primary College in Kegalle district at a cost of Rs.2.95 million.
- c) According to the instruction issued by the Donor Agency, the Transitional Shelters constructed are required to be handed over to the respective Divisional Secretary. It was observed at the site inspection that 03 transitional Centres constructed at a cost of Rs. 23.28 million in Kegalle, Ratnapura and Kalutara districts had not been handed over to the respective Divisional Secretaries even as at 31 December 2018. Further, it was observed that adequate facilities had not been provided for displaced persons including the differently abled persons to use the Transitional Shelters in emergency situations except the Transitional Shelter constructed at Karangoda temple in Ratnapura district.

3.4 Idle Assets

The following observations are made in this regard.

- (a) It was observed that the Project had procure 111 power generators at a cost of Rs 5 million to distribute to the Divisional Secretaries of Kegalle district and out of that 91 power generators had only been distributed as at 31 December 2018. It was revealed in audit carried out at the stores of the Ministry of Disaster Management only 16 power generators remained at the stores had been presented for physical verifications. Further, it was observed that no action had been taken to carry out regular maintenance services the machines and no tests carried out to measure the running condition of such machines.
- (b) Out of 73 life saving jackets procured by the Project during the period under review in order to distribute to 11 Divisional Secretaries of Kegalle district, only 23 life saving jackets had been distributed to 04 Divisional Secretaries as at 31 December 2017 . The rest of the life saving jackets had remained unused at the stores of the Regional Disaster Management Centre at Kegalle. Further, according to the records maintained by the of District Secretariat of Ratnapura, 34 lanterns had been issued to the Divisional Secretariat of Balangoda and Kolonna during the period under review. However, no lanterns had been received to Divisional Secretariats of Balangoda whilst only 08 lanterns received Divisional Secretariats of Kolonna, according to the records maintained by the respective offices.

3.5 Issues on Financial Control

The following observations are made.

- (a) Transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ministry of Internal and Home Affairs and Provincial Councils and Local Government, as required by the Circular No. 05 of 26 July 2010 of the Department of Management Audit and the Financial Regulations No.133.
- (b) Allowances aggregating Rs.781,254 paid to the staff of the Project Management Unit for the period under review, out of the supplementary allocation amounting to Rs. 2 million made under the Line Ministry had been treated as a cost of the respective Ministry. As a result, the Project Monitoring expenses had shown understated in the financial statements.