

Climate Resilience Improvement Project (Additional Financing) - 2016/2017

The audit of financial statements of the Climate Resilience Improvement Project (Additional Financing) for the first accounting period from 01 October 2016 to 31 December 2017 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 4:09 (b) of the General Conditions for Credits and Grants of International Development Association and Article I of the Financing Agreement No:5768-LK dated 05 September 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, then Ministry of Irrigation and Water Resources Management, presently Ministry of Irrigation, Water Resources and Disaster Management is the Executing Agency and the Department of Irrigation, Mahaweli Authority of Sri Lanka, Provincial Road Development Department of Uva are the Implementing Agencies of the Project. The objectives of the Project are to reduce the vulnerability of exposed people and assets to climate risk and to improve the capacity to respond effectively to disasters. According to the Financing Agreement, the estimated total cost of the Project amounted to US\$ 42 million equivalent to Rs. 6,048 million and entire amount was agreed to be financed by the International Development Association. The Project commenced its activities on 05 September 2016 and scheduled to be completed by 30 May 2019.

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 Sri Lanka Public Sector Accounting Standards 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 Lending 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 Loan, etc,
- (d) 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 Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan 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 Sri Lanka Public Sector Accounting Standards, and
- (i) Whether the financial covenants laid down in the Financing 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Financing Agreement, and
- (e) the financial covenants laid down in the Financing Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision for the period under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Financing Agreement		Allocation made in the Budget Estimate for the period under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million		US\$ million	Rs. million
IDA	42.0	6,048	500	3.87	591.89
GOSL	-	-	02	0.01	1.30
Total	<u>42.0</u>	<u>6,048</u>	<u>502</u>	<u>3.88</u>	<u>593.19</u>

3.2 Physical Progress

The activities of the Project for additional financing purpose are mainly focus to establish more climate resilience economy and it consisted with 02 main components of increasing of climate resilience of infrastructure, implementation support. The following observations are made on the implementation of the activities of the Project.

- (a) The feasibility study reports required to be prepared before commencing of the activities of the Project had not been made available for audit purposes. As result, the expected result of the Project at the end of the year under review could not be evaluated.
- (b) According to information provided, out of 17 contract packages required to be awarded by the Mahaweli Authority of Sri Lanka, the works under 04 contract packages scheduled to be completed as at 31 December 2017. However, it was reported that the progress of works under the contracts had remained at a range from 64 per cent to 80 per cent at the end of the year under review.

3.3 Human Resources Management

The Project Monitoring Unit was operated during the period under review with shortage of officers for the key posts of Senior Social Safe Guard and Resettlement Specialist, Communicate Specialist, Environment Safe Guard Specialist, HR Officer and other several posts of support staff

3.4 Internal Audit

In terms of the Management Audit Circular No. 02/2016 of 10 June 2016 of the Secretary to the Ministry of Finance, action should be taken to recruit an Internal Auditor with the approval of the Department of the Management Services for the Project based on the foreign aid which estimated total cost US\$ 10 million or above. However, no action had been taken to recruit an Internal Auditor for the Project. Instead, the internal audit activities are implemented by an Internal Audit Committee of the Project consisted with the a Director and an Accountant of Department of Irrigation, a Director of Mahaweli Authority of Sri Lanka and 03 senior audit officers from the Road Development Authority, National Building Research Organization and the Ministry of Irrigation, Water Resources and Disaster Management appointed by the Project Director. The observations contained in the internal audit reports indicated that detailed investigations had not been carried out as enable to make material findings on activities of the Project. Further, many of above mentioned officers were involved in management decision making process of the activities of the Project and therefore, independent reviews on the operations of the Project would not be carried out.