

## **Post Tsunami Coastal Rehabilitation and Resource Management Programme - 2013**

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The audit of financial statements of the Post Tsunami Coastal Rehabilitation and Resource Management Programme for the year ended 31 December 2013 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, dated 01 December 2005 and Section 3.01 of Article V of the Loan Agreement No. 693-LK dated 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**

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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 and was completed as at 31 December 2013.

### **1:3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **2. Scope of Audit and Basis of Opinion**

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My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and

controls, transactions, assets, liabilities and accounting records 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 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 Loan etc,
- (c) Whether withdrawals under the Loan had been made in accordance with the specification laid down in the Loan Agreements,
- (d) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Programme,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) 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 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and,
- (i) Whether the financial covenants laid down in the Loan Agreements had been complied with.

### **3. Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effect of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of

affairs of the Programme as at 31 December 2013 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 2013 had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2013 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) 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.

#### 4. Financial Statements

##### 4:1 Financial Performance

According to the Financial Statements and the information made available, the expenditure of the Programme for the year under review amounted to Rs.440,127,441 and the cumulative expenditure as at 31 December 2013 amounted to Rs.3,890,562,239. The following statement shows a summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

Item	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	<u>2013</u>	<u>2012</u>	
	Rs.	Rs.	Rs.
Civil Works	208,210,383	764,342,234	2,668,383,781
Motor Vehicles, Equipment and Vessels	(6,175,608)	2,975,066	191,046,026
Technical Assistance and Studies	14,992,123	7,145,890	83,267,559
Training and Workshops	23,030,533	7,221,205	98,908,804
Contract with Service Provider	30,566,621	28,482,642	93,883,902
Funds (Non-repayable Grants)	39,415,500	27,241,939	72,252,939

Incremental credits	65,770,598	111,122,074	190,841,280
Salaries and Allowances	41,721,958	42,821,125	246,018,595
Operation and Maintenance	22,595,333	23,342,610	129,060,269
Expenditure incurred out of Canadian International Development Agency Grant	Nil	Nil	116,899,084
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Total	440,127,441	1,014,694,785	3,890,562,239
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#### 4:2 Special (Dollar) Account

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According to the financial statements and information made available, the operations of the Special (Dollar) Account during the year under review and the balance held in the account as at 31 December 2013 are shown below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2013	332,003	42,217,773
<b><u>Add :</u></b>		
Replenishments	1,606,028	206,398,407
Foreign Exchange Gain	-	1,295,293
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	1,938,031	249,911,473
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<b><u>Less :</u></b>		
Withdrawals	1,907,465	245,914,907
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Balance as at 31 December 2013	30,566	3,996,566
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#### 5. Audit Observations

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##### 5.1 Accounting Deficiencies

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The balance of amounting US\$ 175,846 to be settled by the project to IFAD as at 31 December 2013 had not been brought to accounts.

## 6. Financial and Operating Review

### 6.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at 31 December 2013 are shown below.

Sources	Amount agreed to be provided		Budgetary provision for the year 2013	Funds utilized during the year 2013		Funds utilized up to 31 December 2013	
	US\$(Mn)	Rs(Mn)	Rs.(Mn)	US\$ (Mn)	Rs.(Mn)	US\$(Mn)	Rs.(Mn)
IFAD	31.35	3,386.81	401.56		427.75		3,714.89
GOSL	4.37	471.96	12.38		12.38		154.89
Beneficiaries	0.42	45.67	-		-		20.78
Total	36.14	3,904.45	413.94		440.13		3,890.56

Following observations are made.

- (a) Funds allocated for certain activities had been exceeded considerably and those excesses had been compensated for other activities of the project. However, relevant approvals from Funding Agency for such amendments were not made available to audit. Details are given below.

Component	Allocation of Funds	Utilization of Funds as at 31 December 2013	Utilization over Allocation	Per centage of Utilization
	US\$	US\$	US\$	
Civil Works	10,170,600	12,807,603	3,637,003	125.9
Contracts with Service Providers	154,100	410,838	256,738	266.6
Salaries and Allowances	693,450	838,437	144,987	120.9

- (b) It was observed that the percentage of utilization of the funds of following component was remained low.

Component	Allocation of Funds	Utilization of Funds as at 31 December 2013	Savings	Per centage of Utilization
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	US\$	US\$	US\$	
Vehicles Equipment and Vessels	508,530	34,918	473,612	6.9
Technical Assistance and Studies	308,200	51,476	256,724	16.0

(c) Out of the funds allocated under Loan No 664 LK and 693 LK for Non-repayable grants for micro enterprises activity to women, only 69 per cent and 4.6 per cent respectively had been utilized at the end of the period of the project.

(d) A claim made on 13 August 2013 to reimburse the cost of \$ 19,240 equivalent of Rs 2,510,819 was rejected over 21 months after the expense incurred.

## 6.2 Physical Performance

- (a) The plans had not been prepared and implemented for the objective of Conservation of the Coastal Resources of the programme.
- (b) The Annual Progress Reports of the programme for the year under review had not been furnished to audit. According to the project completion report the following observations are made on the achievement of the objectives of the project.

Achievements of targets on 07 activities under the Social Economic Infrastructure Component of the programme at the end of the period of the project had remained in the range of 33 per cent to 84 per cent. Details are given below.

Activity	Target	Actual	Percentage of Achievement
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(i) Construction of new Houses (units)	1,000	793	79
(ii) Rehabilitation of Houses (units)	1,130	633	56
(iii) Construction of Wells (units)	1,350	590	44
(iv) Construction of Kitchens (units)	1,200	858	72
(v) Rainwater Harvesting Systems Construction or Rehabilitation(units)	1,200	807	67
(vi) Drinking Water Systems Construction or Rehabilitation(units)	150	50	33
(vii) Roads (settlements) Construction or Rehabilitations (km)	100	84	84

### **6.3 Management of Assets**

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Confirmations that the assets handed over by the programme to the entities such as the National Aquatic Resources Research and Development Agency, the Ceylon Fisheries Corporation, Ceylon Fisheries Harbour Corporation and the Ministry of Fisheries and Aquatic Resources Development had been received for audit further it was observed that the Inventory Registers had not been maintained by the relevant Divisions of those institutions. Therefore the misuse of such assets by outside parties cannot be ruled out in audit.

### **6.4 Matters in Contentious Nature**

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The following observations are made as the expenses amounting to Rs. 23,030,533 made on foreign and local training under the component of Training Seminar and Conference.

- (a) The allocations for foreign training activities had not been made in the loan Agreement. Further the secretary to the Ministry of Finance and Planning had instructed by his letter No. SF/6/1/2/05 dated 25 August 2013 that funds should be utilized for intended parties only. However a sum of Rs 19,867,014 had been spent by the project for foreign training purposes.
- (b) Two officers had participated to the Workshop on Women Empowerment – New Business and Sustainable National Resource Management held in Nepal from 03 to 21 September 2013. The respective officers were allowed to stay abroad for three days after the Workshop and paid subsistence and combined allowances amounting to Rs.288,288.
- (c) According to paragraph 05 of the Instruction letter No. CS1/1/16 of 11 June 2012, of the Secretary to the President, officers should not participate to the foreign scholarships and other programmes on private invitations made to officers. Nevertheless, 6 Accountants had participated in Financial Management Training Programme held in Thailand from 9 to 11 October 2013 on invitations made to such officers through e-mail. The expenditure incurred in this connection was amounted to Rs.1, 547, 267.
- (d) Reports on the benefits accruing to the Government of Sri Lanka to be submitted within 02 weeks from the date of returning to the Island any officers who had participated in foreign training and seminars utilizing funds provided by the project had not submitted such reports.
- (e) Even though the Project was scheduled for completion on 31 December 2013 a number of officers had visited abroad to participate foreign training and knowledge sharing seminars etc during the year under review and the project had incurred a cost of Rs.19,867,014 thereon.

**7. Systems and Controls**

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Special attention is needed in respect of the following areas of control.

- (a) Assets Management
- (b) Contract Administration
- (c) Foreign travel and Expenses