

Poverty Alleviation Micro finance Project -II - 2012

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 3 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with the Generally Accepted Accounting Principles,
- (b) the funds provided had been utilised for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Special Yen Account during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2012 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 Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Financial Performance

According to the financial statements and information made available, the income and expenditure of the project for the year ended 31 December 2012 amounting to Rs. 86,164,186 and Rs.75, 192,019 respectively, as compared with the income and expenditure of the Project for

the previous year amounting to Rs. 84,198,850 and Rs. 58,039,868 respectively. A summary of the income and expenditure of the Project as compared to the previous year is given below.

Description -----	Year ended 31 December -----	
	2012	2011
	Rs.	Rs.
Income	86,164,186	84,198,850
Less: Expenditure	<u>75,192,019</u>	<u>58,039,868</u>
Excess of income over expenditure	10,909,948	26,158,982
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2.2 Special Yen Account

According to the financial statements and information made available, a summary of the transactions relating to the Special Yen Account maintained by the CBSL for the year under review is shown in the following table.

	Japanese Yen	Rs.
Balance as at 01 January 2012	71,164,186	104,390,744
Add: Replenishments	313,706,073	494,575,077
Foreign exchange gain	-	2,693,795
	-----	-----
	384,870,259	601,659,616
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Less: Withdrawals	384,870,259	601,659,616
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Balance as at 31 December 2012	Nil	Nil
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According to the financial statements presented for the year under review, the brought forwarded balance of the Special Yen account as at 01 January 2012 was Rs. 102,796,667. However, as per the bank statement prepared by the CBSL, the corresponding balance of the Special Yen account was Rs. 104,390,744. The difference of Rs. 1,594,077 had been adjusted to foreign exchange gain account without being identified.

3. Audit Observations

Following observations are made.

3.1 Accounting Deficiencies

Depreciation charged for motor vehicles for the year under review had been understated by Rs. 267,445 due to erroneous calculations.

3.2 Operations of the Project

Following table shows the number of loans and loan allocation that had been budgeted to disburse during the year under review, actual achievement and variances as compared with the budget.

Provinces	Targets for 2012		Actual 2012		Variance			
	No. of Loans	Rs. Mn	No. of Loans	Rs. Mn	No. of Loans	%	Rs.Mn	%
Northern	14,740	725	2,554	194	(12,186)	82	(531)	73
Eastern	3,435	179	4,909	295	1474	43	116	64
Other*	5850	346	2,653	163	(3,197)	54	(183)	53
Total	24,025	1,250	10,116	652	(13,909)	58	(598)	48

*Other includes districts of Puttalam, Anuradhapura, Polonnaruwa, Badulla, Monaragala and Ratnapura.

Following observations are made in this regard

- (a) 24,025 numbers of loan amounting to Rs.1,250 million had been budgeted to distribute among the beneficiaries in the identified Provinces and Districts in order to achieve the Project objectives. However, only 10,116 number of loans or 58 per cent amounting to Rs.652 million or 48 per cent had not been disbursed among the beneficiaries during the year under review. This revealed the poor performance of the Project.
- (b) Out of the total loan schedule, 14,740 numbers of loan or 61 per cent and loan amount of Rs. 725 million or 58 per cent scheduled to be distributed for the Northern Province. However, only 2,554 numbers of loan amounting to Rs, 194 million had been disbursed during the year under review. This was mainly due to erroneous forecasting of the Project beneficiaries in the Province.

3.3 Utilization and Maintenance of the Fund

In terms of Section 2 of Schedule 1 of the Loan Agreement, total estimated allocation of the Project for the period of 2008-2012 was Japanese Yen 2,525 million. However, total disbursements during the entire Project period were Japanese Yen 2,038 million. Thus, indicating the allocated credit was only the 81.71 per cent, out of the total allocation.

3.4 Non- compliance with Laws, Rules ,Regulations and Management Decisions

The replenishment application submitted by CBSL under consultancy and capacity development component had been returned by JBIC due to non obtaining of prior concurrence of the JBIC for recruitment of staff and conducting of training programmes as stipulated in Section 4 of Schedule 4 of the Loan Agreement. Even though the subsequent approval for the recruitment of consultants had been granted, the cost incurred on training and emoluments amounting to Rs. 5,797,684 had not been reimbursed by the JBIC up to end of September 2013.

3.5 Un-reconciled Balances

Following differences were observed between the account balances of the outstanding refinance loans as at 31 December 2012, relating to the People's Bank and the Regional Development Bank, due to non-reconciliation of account balances with the corresponding balances as per the confirmations provided by the respective Participating Financial Institutions (PFIs).

PFIs	Balance as per Accounts Rs.	Balance as per confirmations Rs.	Difference Rs.
People's Bank	291,626,950	266,348,966	25,277,984
Regional Development Bank	270,003,950	280,297,581	(10,293,631)