

Emergency Natural Disaster Rehabilitation Project (Central, North Central and Eastern Provinces) - 2013

The audit of financial statements of the Emergency Natural Disaster Rehabilitation Project (Central, North Central and Eastern Provinces) 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 4 (6) of Article III of the Loan Agreement No. SL – P103 dated 29 September 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency. (JICA)

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Emergency Natural Disaster Rehabilitation Project, the Road Development Authority, the Department of Irrigation, Eastern Provincial Department of Road Development, the Provincial Road Development Authorities of the Central and the North Central Provinces and the Provincial Departments of Irrigation of the North Central and the Eastern Provinces are the Implementing Agencies of the Project and the Department of National Planning of the Ministry of Finance and Planning is the Executing Agency of the Project. The objective of the Project is to restore socio economic activities and prevent further damage in the flood stricken areas in Central, North Central and Eastern provinces by rehabilitating damaged roads and irrigation schemes, thereby contributing to prompt restoration of safe and sustainable living environment in the affected areas. According to the Loan Agreement, the estimated total cost of the Project is JPY 8,313 million equivalent to Rs.10,886 million and out of that JPY 7,000 million equivalent to Rs. 9,161 million or 84 per cent was agreed to be financed by the Japan International Cooperation Agency. Balance amount of JPY 1,313 million equivalent to Rs. 1,725 million is contributed by the GOSL. The Project commenced its activities on 7 December 2011 and is scheduled to be completed by 7 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. 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

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 Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) 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 identification of purchases made out of the Loan, etc.
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (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 Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project 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.
- (h) Whether the Statement 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.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.
- (j) Whether financial covenants laid down in the Loan Agreement had been complied with.

3. **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 5 of this report, I am of opinion that

- (a) The Project 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 Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,
- (b) The funds provided had been utilized for the purposes for which they were provided,
- (c) The withdrawals from and replenishments to the Imprest Fund Account during the period ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project 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 Agreement,
- (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 Agreement had been complied with.

4. **Financial Statements**

4.1 **Financial Performance**

According to the financial statements and information made available for audit, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 4, 808,999,402 and the cumulative expenditure as at 31 December 2013 amounted to Rs 8,737,393,220. The expenditure for the year under review, expenditure for the preceding period and the cumulative expenditure as 31 December 2013 are summarized below.

Item of Expenditure	Expenditure for the year ended 31 December 2013	Expenditure for the year ended 31 December 2012	Cumulative Expenditure as at 31 December 2013
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	Rs.	Rs.	Rs.
Civil works	4,298,601,386	3,442,872,615	7,781,552,125
Equipment – Department of Irrigation	-	136,698,530	136,698,530

Commitment Charges	2,991,781	831,479	3,823,260
Interest	606,501	123,363	729,864
Administration Cost	506,799,734	306,286,298	814,589,441
Total	<u>4,808,999,402</u>	<u>3,886,812,285</u>	<u>8,737,393,220</u>

4.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account during the year under review are summarized below.

	2013	
	<u>JPY</u>	<u>Rs.</u>
Balance as at 01 January 2013	2,046,601,143	3,028,765,031
Add: Replenishments	1,642,873,003	2,182,743,847
Foreign Exchange Gain /(Loss)	-	(343,442,989)
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Less: Withdrawals	3,689,474,146	4,868,065,889
	3,269,243,026	4,344,499,937
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Balance as at 31 December 2013	<u>420,231,120</u>	<u>523,565,952</u>

5. Audit Observations

Non – compliance with Laws, Rules and Regulations

A Register of Fixed Assets in terms of the Treasury Circular No.842 of 19 December 1978 and a Register of Computers and Accessories in terms of the Treasury Circular No. IAI/2002/02 of 28 November 2002 had not been maintained. Further a Board of Survey of the assets valued at Rs.139,759,109 of the Project for the year under review had not been conducted in terms of Financial Regulation 756 to enable the verification of the existence of the assets procured by the Project .

6. Financial and Physical Performance

6.1 Utilization of Funds

According to the disbursement schedule, total funds amounting to Yen 8,313 million equivalent to Rs.10, 886 million was expected to be utilized within six years from the year 2011 to 2016 and a sum of Rs.5, 075 million had been provided for the Project for the year 2013 through the Department of National Budget. Out of that, Rs 4,809 million or 95 per cent of the allocated funds had been utilized by the Project for the year under review. Details of the funds utilization are given below.

Source	Amount agreed to be provided		Budgetary Provision for the year 2013	Amount utilized for the year ended 31 December 2013		Cumulative Expenditure as at 31 December 2013	
	Yen Mn	Rs. Mn	Rs. Mn	JPY Mn	Rs. Mn	JPY Mn	Rs. Mn
JICA	7,000	9,161	4,421	3,236	4,302	5,521	7,923
GOSL	1,313	1,725	654	384	507	576	815
Total	<u>8,313</u>	<u>10,886</u>	<u>5,075</u>	<u>3,620</u>	<u>4,809</u>	<u>6,097</u>	<u>8,738</u>

6.2 Physical Performance

According to the information received, the rehabilitation works of 149 roads (329.74 Kilometres) and 577 irrigation works in three provinces which were damaged due to floods were expected to be completed as at 31 December 2013. The provincial-wise details of the progress of the works carried out are given below.

Rehabilitation Works	Works Expected to be completed during the period of the Projects			Works Completed as at 31 December 2013		
	Central Province	Eastern Province	North Central Province	Central Province	Eastern Province	North Central Province
Roads - National Roads - Number	07	04	08	02	02	06
- Kilometres	24.73	21.35	46	2.5	8.35	37
- Provincial Roads - Number	57	66	35	26	35	33
- Kilometres	94.21	98.72	101.32	29.06	28.78	95.297
Irrigation – Major and Medium Irrigation Works	-	217	306	-	217	306
Minor Irrigation Works	-	34	40	-	30	17

Site visits had been made by the audit to carry out test checks in several locations in Anuradhapura District on 30 June 2014 and the following observations are made in that connection.

- Even though the construction works of the causeway of the access road to Manankattiya Tank had been estimated as Rs 7,826,000, the respective works had been completed at a cost of Rs. 4,622,076 thus, indicating that a proper estimation of works had not been at the initial stages of the construction works. Further, cracks appeared at 17 locations of the bridge established that the quality of work was substandard.

- (b) A contract for the construction of a drainage system at Manankuttiya Tank had been awarded at an estimated cost of Rs. 6,993,000. According to the work plan 100 Hume pipes were expected to be used to provide access to the houses along the roadside. However, it was observed that drainage system had not been constructed according to the initial work plan. Therefore, 96 hume pipes fixed to provide access to the houses had not been laid properly.
- (c) It was observed that the rehabilitation work of 1,200 metres of Kadahatha Drainage had been overestimated and such works were carried out under four contracts awarded to the Farmers' Organizations at lower costs ranging from 18 per cent to 77 per cent less than estimated costs. The following further observations were made at the audit inspections.
- (i) The contract awarded for concreting drainage from 0+00 to 3+00 metres had been completed only up to 2+50 metres. Further, drainage system had only a single canal and it was not sufficient to supply water for paddy fields.
 - (ii) The canals rehabilitated under the contract for rehabilitation of drainage from 3+00 metres to 6+00 metres and the causeway had been damaged.
 - (iii) The drainage system from 6+00 to 9+00 metres had been blocked by unauthorized constructions abutting the drain made by the roadside residents.
- (d) The road shoulders of the Kahatagasdigiya – Konwewa- Dematawewa Road rehabilitated by this Project had been washed off at 8+540 km to 8+880 kilometres due to widening and rehabilitation of a drainage system alongside the road.
- (e) Even though the existing bridge at 6+976 kilometres should have been rehabilitated, it had not been done even by 31 August 2014.