

Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post-Tsunami Sri Lanka Project - 2013.

The audit of financial statements of the Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post – Tsunami Sri Lanka Project 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 of Article V of the Grant Agreement No. GEF-FSP-5-LK dated 23 July 2009 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 Project

According to the Grant Agreement, the Ministry of Fisheries and Aquatic Resources was the Executing Agency and the Coast Conservation Department was the Implementing Agency of the Project. However, according to the amendments made to the Grant Agreement on 04 April 2012, the new executing agency of the Project is the Ministry of Defence and Urban Development. The objective of the Project is to mainstream restoration and management conservation of globally important ecosystems affected by Tsunami into the reconstruction process to support sustainable livelihoods and reduce vulnerability to climate change along the east coast of Sri Lanka. According to the Grant Agreement, the estimated total cost of the Project is USD 14,839,365, which comprises Global Environmental Facility financing of USD 7,269,915 and Co-financing of USD 7,569,450. The Co-financing of USD 7,569,450 comprised USD 430,300 from the Government of Sri Lanka, USD 7,083,650 from the International Fund for Agricultural Development and USD 55,500 from the World Conservation Union. The Project commenced its activities on 10 September 2010 and is scheduled to be completed by 10 September 2015.

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 funding agencies, 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 Grant etc,
- (c) Whether withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement,
- (d) Whether the funds, materials and equipment supplied under the Grant 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 the 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 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 Grant 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, 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 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 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) 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

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available for audit, the project expenditure for the year ended 31 December 2013 amounted to Rs. 95,843,611 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 181,926,825. The expenditure for the year under review, expenditure for the period from 10 September 2010 to 31 December 2012 and the cumulative expenditure as at 31 December 2013 are summarized below.

Category	Expenditure for the year 2013	Expenditure for the period from 10 September 2010 to 31 December 2012	Cumulative Expenditure as at 31 December 2013
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	Rs.	Rs.	Rs.
Technical Assistance	6,641,510	3,881,735	10,523,245
Consultancies			
Ecosystem Restoration	36,685,744	24,554,469	61,240,213
Adaptation	41,845,079	15,536,289	57,381,368
Vehicles and Equipment	1,253,230	26,107,715	27,360,945
Operations and Maintenance	<u>9,418,048</u>	<u>16,003,006</u>	<u>25,421,054</u>
Total	<u>95,843,611</u>	<u>86,083,214</u>	<u>181,926,825</u>

4.2 Special Dollar Account

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

	US\$	Rs.
Balance as at 01 January 2013	321,765	40,915,906
Add: Replenishment	1,000,000	128,547,150
Foreign Exchange Gain	–	2,044,725
Less:		
Withdrawals	<u>(705,720)</u>	<u>(90,958,035)</u>
Balance as at 31 December 2013	<u>616,045</u>	<u>80,549,746</u>

5. Financial and Physical Performance

5.1 Utilization of Funds

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

Source	Amount agreed to be financed		Allocation made in the Budget	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	US\$ Mn	Rs Mn	Rs Mn	US\$ Mn	Rs Mn	US\$ Mn	Rs Mn
IDA	14.50	1,929.1	338.03	0.70	91.28	1.32	172.8
GOSL	<u>0.43</u>	<u>55.9</u>	<u>5.65</u>	<u>0.03</u>	<u>4.56</u>	<u>0.07</u>	<u>9.1</u>
Total	<u>14.93</u>	<u>1,985.0</u>	<u>343.68</u>	<u>0.73</u>	<u>95.84</u>	<u>1.39</u>	<u>181.9</u>

The following observations are made.

- According to the Work Plan, a sum of Rs. 883,360,000 had been allocated for project activities for the period of four years from 2010 to 2013. However, an aggregated sum of Rs. 181,926,825 representing 20 per cent of the total allocation had only been utilized up to the end of the year 2013.
- The amount utilized for project activities during the year 2013 had represented 22 per cent of the total funds allocated for those activities, whereas the amount utilized for management activities had represented 158 per cent of the amount allocated for that purpose, thus indicating that the planned activities had not been properly addressed during the year under review. Details are given below.

Activities	Amount Allocated	Expenditure Incurred	Percentage of Utilization
	Rs.	Rs.	
Expenditure for Project Activities	330,030,000	74,183,601	22
Expenditure for Project Management Activities	13,650,000	21,659,009	158

- Further, out of a sum of Rs. 122,550,000 allocated during the year 2013 for 20 project activities, no expenditure whatsoever had been utilized on those activities up to the end of the year under review. In this connection, the Project Director informed me that the environmental conservation is a new subject for the people living in the coastal area and therefore, they have to be educated through many awareness programmes before implementing project activities. As a result, the Project is not moving at the rate it was originally planned.

5.2 Physical Performance

5.2.1 Progress of the Project Activities

According to the Action Plan of the Project, sums aggregating USD. 1,640,700 equivalent to Rs. 210,009,600 had been allocated for seven project activities which should have been completed before 31 March 2013. Further, other twelve activities for which sums aggregating USD 1,683,627 (approximately Rs. 215,504,256) allocated should have been completed before end of December 2013. However, no such activities had been commenced even up to 31 December 2013.

5.2.2 Contract Administration

(a) Rehabilitation of Komari Lagoon and erecting Concrete Posts

The Project Office had released a sum of Rs. 1,170,180 to the Divisional Secretariat, Pothuvil for dredging of Komari Lagoon and Divisional Secretariat had entered into an agreement with a Samurdhi Society to carry out the rehabilitation of Komari Lagoon.

The following observations are made in this connection.

- (i) Even though the rehabilitation of Komari Lagoon should have been completed on or before 10 October 2012 according to the Contract Agreement, the works had been completed by the Society only on 23 July 2013. However, liquidated damages amounting to Rs. 78,900 had not been recovered from the contractor in terms of Clause 5 of the Agreement.
- (ii) Without identifying the reservation of the Komari Lagoon 450 concrete posts had been erected around the Komari Lagoon at a cost of Rs. 414,003. As a result, a sum of Rs. 19,403 had to be spent additionally by the Project to remove 25 posts and erecting them in other locations.

(b) Construction of Retaining Wall at Kineeyadi Toona at Palameenmadhu – Batticaloa

The Project had released a sum of Rs. 1,000,000 to the Divisional Secretariat, Manmunai North in 2013 to construct a retaining wall at Kineeyadi Toona.

The following observations are made in this connection.

- (i) It was observed that a proper feasibility study had not been carried out before commencing the construction work. As a result, there is a possible risk of damaging the retaining wall due washing off of the foundation during the rainy season.

- (ii) According to the information collected from the Divisional Secretariat, Manmunai North, only a sum of Rs. 886,132 had been spent for the above construction work and the balance of Rs. 113,867 had been kept in the Deposit Accounts. However, the Project had reported that the entire amount of Rs. 1,000,000 provided to the Divisional Secretariat had been spent on the construction work.

5.2.3 Transactions of Contentious Nature

An officer recruited on 01 July 2013 to the Ecosystem Restoration Adaptation Unit at Project Coordinating Office, Ampara had not reported for duty from the date of recruitment. However, a sum of Rs. 84,333 had been paid to him as allowances up to February 2014.