

Climate Resilience Improvement Project for the first accounting period from 05 August 2014 to 31 December 2014

The audit of financial statements of the Climate Resilience Improvement Project (CRIP) first accounting period from 05 August 2014 to 31 December 2014 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 Financing Agreement No:5417-LK dated 10 July 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1:2 **Implementation, Objectives, Funding and Duration of the Project**

According to the Financing Agreement of the Climate Resilience Improvement Project, then Ministry of Irrigation and Water Resources Management, presently Ministry of Irrigation is the Implementing Agency 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 is US\$ 111.8 million equivalent to Rs. 14,617 million and out of that US\$ 110 million equivalent to Rs. 14,382 million or 98.39 percent was agreed to be financed by the International Development Association. The Project commenced its activities on 05 August 2014 and scheduled to be completed by 30 May 2019.

Financing Plan

According to the financing agreement the Financing Plan of the Project, including the domestic funds amounted to US\$ 111.8 million as shown below.

Sources of Fund	Component	SDR million	US\$ million	Rs. million
IDA	Development of basic investment Plan	8.45	13.0	1,700
	Increasing Climate Resilience of Infrastructure	58.50	90.0	11,767
	Project Implementation	3.25	5.0	654
	Contingent Emergency Response	1.30	2.0	262
GOSL	Project Implementation	-	1.8	234
Total		<u>71.7</u>	<u>111.8</u>	<u>14,617</u>

Exchange Rate:USD 1= LKR 130.75

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 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 withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (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 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 the opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) 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 Financing Agreement and
- (d) the financial covenants laid down in the Financing Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

The following observations are made.

- (a) Certain significant statistics relating to the financing and budgetary provision and funds utilization during the year under review and the cumulative utilization as at December 2014 are shown below.

Source	Amount agreed to be provided		Allocation made in the Budget Estimate for 2014	Fund utilized during the year under review	Fund utilized as at 31 December 2014	
	US\$ million	Rs million			US\$ million	Rs million
IDA	110.0	14,382	220.81	132.7	1.02	132.7
GOSL	1.8	235	-	13.9	-	13.9
Total	<u>111.8</u>	<u>14,617</u>	<u>220.81</u>	<u>146.6</u>	<u>1.02</u>	<u>146.6</u>

- (b) Even though allocation amounting to Rs 221 million made in the Action Plan for the year 2014 to carry out the activities of the Project, out of the proceeds of the Loan, only Rs. 132.8 million representing 60 per cent had been utilized as at 31 December 2014 as described below.

Component	Allocation	Actual Expenditure	% off Utilization
	Rs million	Rs million	
Development of basic investment Plan	-	-	
Increasing Climate Resilience of Infrastructure	214.41	130.32	61
Project Implementation	6.40	2.48	39
Contingent Emergency Response	-	-	
Total	<u>220.81</u>	<u>132.8</u>	

3.2 Physical Progress

Although an overall project plan for entire period of the Project at the beginning of the Project and an action plan for the year under review should have been prepared to ensure the achievement of the pre determined targets in an economical and efficient manner within the specified period of the Project, no such project plan and an action plan had been prepared to monitor the activities of the Project during the period under review. Therefore the physical progress of the Project as at 31 December 2014 could not be evaluated in audit.

3.3 Issues on Financial Controls

A Special (Dollar) Advance Account had also been opened at a local Commercial Bank on 02 October 2014 to facilitate the expenses of the Project to avoid delays in obtaining funds from the Treasury on reimbursable basis. A sum of Rs. 100 million had been drawn in two times as advances to meet and withdrawals amounting to at Rs. 97.79 million during the period under review. Further, a balance of sum of Rs. 2.21 million was remained in the Account in addition to the balance of the Special Dollar Account amounting US\$ 13.97 million equivalent to Rs 1,830 million as at 31 December 2014.

3.4 Human Resources Management

The following observations are made.

- (a) It was observed that allowances amounting to Rs. 13.9 had been paid to 400 officers released from state institutions during the period under review eventhough the appointment letters were not issued by the Project.
- (b) Six officers those who are working in the Dam Safety and Water Resources Planning Project on full time basis had been paid a sum of Rs.1.4 million during the year under review, as 1/3 allowance without any appointment letters.