

Emergency Natural Disaster Rehabilitation Project - 2014

The audit of financial statements of the Emergency Natural Disaster Rehabilitation Project for the year ended 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 (6) of Article III of the Loan Agreement No. SLP-103 dated 29 September 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Department of National Planning of the Ministry of Finance is the Executing Agency and 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. The objective of the Project is to restore socio economic activities and prevent further damages in the flood stricken areas in the 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. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 8,313 million equivalent to Rs.10, 886 million and out of that Japan Yen 7,000 million equivalent to Rs.9,161 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 07 December 2011 and the disbursements of funds for Project were expected to be completed by 07 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 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 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 identification of the purchases made out of the Loan etc,
- (d) Whether 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) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (f) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project,
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,

- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Loan 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 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 Generally Accepted Accounting Principles.
- (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 Loan Agreement.
- (d) the 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 Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed to be financed according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year under review		as at 31 December 2014	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	7,000	9,161	1,952	1,465	1,852	6,986	9,775
GOSL	1,313	1,725	401	305	378	881	1,192
	<u>8,313</u>	<u>10,886</u>	<u>2,353</u>	<u>1,770</u>	<u>2,230</u>	<u>7,867</u>	<u>10,967</u>

According to the disbursement schedule of the Project Agreement, Japan Yen 7,000 million equivalent to Rs.9,161 million was expected to be disbursed up to 07 September 2016. However, physical works to be carried out under the Project had been completed and Japan Yen 6,986 million equivalent to Rs. 9,775 million representing 99 per cent of total allocation had been reimbursed as at 31 July 2014.

3.2 Physical Progress

Even though the period of Project scheduled to be completed by 07 September 2016, the Project had completed all the physical activities by 31 July 2014. Therefore, the rehabilitation works of 181 roads including 21 national roads, and 160 provincial roads in Central, North Central and Eastern Provinces and rehabilitation of 527 irrigation works including 452 major irrigations and 75 minor irrigations in North Central and Eastern Provinces were completed.

3.3 Completion report of the Project

According to Section 4(4) of Article III of the Loan Agreement, a report on the Completion of the Project had been issued to the Lending Agency on 30 September 2014.