

Emergency Northern Recovery Project (ENReP) for the period ended 30 April 2014

The audit of financial statements of the Emergency Northern Recovery Project (ENReP) for the period ended 30 April 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 II B of Schedule 2 the Financing Agreement No.4676-LK dated 11 January 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

1.2 Implementation, Objectives of Funding and Duration of the Project

According to the Financing Agreement of the Project, then the Ministry of Economic Development presently, Ministry of Policy Planning, Economic, Child, Youth and Cultural Affairs is the Executing Agency and the Northern Provincial Council is the Implementing Agency of the Project. The objective of the Project is to support the efforts of Government of Sri Lanka to return Internally Displaced Persons (IDPs) rapidly to their original places of residence in the Northern Province and restore their social and economic life. As per the Financing Agreement, the total estimated cost of the Project was SDR 40.9 million (US\$ 65.19 million) equivalent to Rs 7,532.27 million and out of that US\$ 65 million equivalent to Rs 7,510 million was agreed to be financed by the International Development Association. According to the Financing Agreement of the Project, the activities of the Project comprised with 03 Parts for the purposes of Emergency Assistance to Returnees, Rehabilitation and Reconstruction of Essential Public and Economic Infrastructure Facilities and Project Management, Oversight, Monitoring and Evaluation and Special Studies etc.,. The Project commenced its activities on 11 January 2010 and scheduled to be completed by 31 December 2012. Subsequently, period of the Project had been extended up to 30 April 2014.

1.3 Responsibility of 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 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 controls 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 the purchases made out of the Loan etc.
- (c) Whether withdrawals under the loan had been made in accordance with the specifications laid down in the Financing 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and,
- (h) Whether 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 opinion that,

- (a) the Project had maintained proper accounting records for the Period ended 30 April 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 April 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 Financing Agreement.
- (e) the 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 Financing 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 30 April 2014 are shown below.

Source	Amount agreed to be financed as per Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized		
				During the year under review	As at 30 April 2014	
	US\$ million	Rs million	Rs million	Rs million	US\$ million	Rs million
IDA	65.00	7,510	430	377	65	7,489
GOSL	0.19	22	9	9	-	21
Total	65.19	7,532	439	386	65	7,510

3.2 Physical Progress

The emergency assistances activities and rehabilitation and reconstruction of infrastructural works under the Project had been substantially completed at the end of the Project period. However, the field visit carried out by the audit officers had revealed that the garage constructed at the Training Centre at Nedunkerny, fertilizer stores at Marichchukkaddi were not used for intended purposes. Further, the defects of the construction works carried out at Nedunkerny and Puliyankulam in Vavuniya, reconstruction works of buildings of Divisional Secretariat at Maruthankerny in Jaffna and renovation works of Agrarian Service Centre at Marichchukkaddi and Pradeshiya Sabha Building at Musali in Mannar were found at the physical examinations. The evidence was not made available to audit to prove whether necessary instructions were issued to the contractors to rectify such defects.

3.3 Closure of the Activities of the Project

Eventhough the activities of the Project had been closed as at 30 April 2014, the Project Completion Report had not been submitted even as at 30 April 2015. According to the information made available, the fixed assets procured by the Project had been transferred to the Implementing Agencies of the Project. However, the existence and usability of such assets could not be verified due to lack of necessary details such as assets identification numbers and costs of the assets etc., to be recorded in the handing over lists of the assets.