

Post-Conflict Emergency Assistance for Livelihood Restoration of Resettled Internally Displaced People in the North Project – 2014

The audit of financial statements of the Post-Conflict Emergency Assistance for Livelihood Restoration of Resettled Internally Displaced People in the North Project for the two months period ended 28 February 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 11 (a) of the Grant Agreement No. JFPR-9150-SRI dated 27 September 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, then Ministry of Economic Development, presently the Ministry of Policy Planning, Economic Affairs, Child, Youth and Cultural Affairs is the Executing Agency and the District Secretaries of the Jaffna, Killinochchi, Mullativu, Mannar and Vavuniya Districts are the Implementing Agencies of the Project. The objective of the Project is restoration of livelihood of resettled internally displaced people in the North through the provision of temporary income-earning opportunities. As per the Grant Agreement, the estimated total cost of the Project is US\$ 2.79 million and out of that US\$ 2.5 million or 89 per cent of the total cost was agreed to be financed by the Asian Development Bank. Balance amounts of US\$ 0.15 million and US\$ 0.14 million are contributed by the Government of Sri Lanka and the communities participated for the activities of the Project respectively. The activities of the Project commenced on 01 May 2011 and scheduled to be completed by 31 July 2013. Subsequently, closing date of the Project was extended up to 28 February 2014.

1.3 Activities of the Project

According to the Grant Agreement, the activities relating to the Project are summarized below.

- Component A: Rehabilitation and maintenance of field irrigation canals and rural access roads.
- Component B: Skill development for self-employment and improvement of agricultural productivity.
- Component C: Project Administration, implementation support, monitoring and auditing.

1.4 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.

1.5 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 Donor 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 Grant, etc.
- (d) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement,
- (e) Whether the funds, materials and equipments supplied under the Grant 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 Generally Accepted Accounting Principles,

- (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.

1.6 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the two months period ended on 28 February 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 28 February 2014 in accordance with Generally Accepted Accounting Principles.
- (c) the funds provided had been utilized for the purpose for which they were provided.
- (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 Grant 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 Grant Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Over payment amounting to Rs.343,035 to the Employees Trust Fund had been shown under a Suspense Account in the financial statements.
- (b) Payables and receivables amounting to Rs.9,047,298 and Rs.742,924 respectively occurred after the balance sheet date had not been brought to account.

2.2.2 Lack of Evidence for Audit

Details on distribution list of the beneficiaries were not made available for audit in respect of six combine harvester procured in January 2014, at a cost of Rs.25,470,000.

2.2.3 Non-Compliance with Laws, Rules and Regulations

The following instances of non-compliances were observed in audit.

- (a) Tools and equipments valued at Rs.29,377,755 had been distributed under livelihood restoration activities carried out by the Project in Mullativu, Kilinochchi, Vavuniya, Mannar and Jaffna districts. However, the bidders for the procurement of such assets had been selected contrary to the provisions made in the Government Procurement Guideline.
- (b) A Register of Fixed Assets had not been maintained properly by the Project. Further, the Annual Board of Survey on the non-current assets of the 05 district offices had not been conducted in terms of Financial Regulations 756. As such, the existence of non-current assets valued at Rs. 5,100,789 and tools valued at Rs. 29,377,755 distributed to the district offices had not been verified.
- (c) As instructed, cash and bank balances at the end of the period of Project required to be remitted to the General Treasury. However, cash and bank balances aggregating Rs. 1,020,436 had not been remitted to the General Treasury as at 28 February 2014.

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 utilization of funds during the year under review and up to 28 February 2014 are shown below.

Source -----	Amount agreed for financing in the Grant Agreement -----		Supplementary Allocation for the year 2014 -----	Funds utilized		
	US\$ million	Rs. million		during the year 2014 -----	as at 28 February 2014 -----	
	US\$ million	Rs. million	Rs. million	Rs. million	US\$ million	Rs. million
ADB	2.50	320.90	55.00	27.87	2.44	320.26
GOSL	0.15	19.20	1.50	0.38	0.04	5.70
Community contribution	0.14	-	-	-	-	-
Total	<u>2.79</u>	<u>340.10</u>	<u>56.50</u>	<u>28.25</u>	<u>2.48</u>	<u>325.96</u>

3.2. Physical Performance

The following observations are made.

- (a) A Project Coordinating Committee (PCC) chaired by the Secretary to the Ministry of Economic Development should be held monthly in terms of paragraph 15 of the Project Administration Memorandum. However, a Project Coordinating Committee had not been established during the Project period, as enable to monitoring of the activities of the Project effectively.
- (b) An Action Plan which need to be identified the responsibilities of core – staff with targets to be achieved and the budgetary allocation relating to the activities to be carried out during the period had not been prepared. Therefore, the progress of the Project as a whole could not be properly evaluated in order to take corrective measures and to make necessary changes for achieving objectives set for.
- (c) According to information made available to audit, physical progress of the rehabilitation of field irrigation canals as at 28 February 2014 were as follows.

District	Field Irrigation Canals (FICs)			
	Target	Completed	Work in progress	Total
	(Km)	(Km)	Km	Km
Jaffna	40	17.41	-	17.41
Kilinochchi	40	-	22.5	22.5
Mullaithivu	40	-	7.25	7.25
Mannar	40	18.90	-	18.90
Vavuniya	40	-	23.58	23.58
Total	<u>200</u>	<u>36.31</u>	<u>53.33</u>	<u>89.64</u>

According to the above information, out of 200 kilometres targeted to be rehabilitated during the period of the Project and field irrigation canals of 36.31 kilometres had only been completed within the period of the Project.

- (d) The Project had targeted to improve 100 kilometres of rural access roads during the period of the Project and out of that improvement works of 28.98 kilometres of rural access roads only had been completed as at 28 February 2014.

- (e) As per Project Agreement, it was expected to provide skill development training for self-employment for at least 2,000 internally displaced persons and out of that, the training workshops for 1,758 internally displaced persons only had been provided as at 28 February 2014.

3.3. Extraneous Activities

It was observed that 10 desktop computers at a cost of Rs.1,137,768 had been procured by the Project on 28 February 2014 and retained at the premises of former Ministry of Economic Development even as at 31 December 2014.

3.4. Winding up of the activities of the Project

Eventhough the activities of the Project were closed as at 28 February 2014 the Executing Agency had not taken action to hand over the assets of the Project for respective agencies and prepare winding up accounts of the Project.