

Conflict Affected Region Emergency Project - Component D - 2014.

The audit of financial statements of the Conflict Affected Region Emergency Project- Component D 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 Schedule 2, Section II B of the Loan Agreement No.2626-SRI dated 07 June 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and duration of the Project

According to the Loan Agreement, then Ministry of Economic Development, presently Ministry of National Policies and Economic Affairs is the Executing Agency and the Ministry of Justice is the Implementing Agency of the Component - D of the Project. The objective of the Project is to restore and improve, livelihood, economic infrastructure and administrative and legal services in the conflict affected areas by reconstructing of court houses in the Northern Province. As per the Loan Agreement, the estimated total cost of Component “D” of the Project amounted to US\$ 9.14 million and out of that US\$ 8.13 million or 89 per cent of the total cost was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 07 June 2010 and scheduled to be completed by 30 September 2014. However, the financial statements for the year ended 31 December 2014 had been presented for audit.

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 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. 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 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 operation 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 Loan etc.
- d) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- 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 equipment 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 opening and closing balance, withdrawals from and replenishments to the Imprest Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- 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 Loan 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 Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

According to the circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements for the year ended 31 December 2014 required to be presented for audit before 31 March 2015. However, the financial statements for the year under review had been prepared and presented for audit only on 28 January 2016.

2.2.2 Un - reconciled Balances

It was observed that the total cost of civil works-in progress, equipments and incremental operational activities amounting to Rs. 557.71 million, Rs.114.87 million and Rs. 12.85 million respectively had not been agreed with the corresponding amounts of Rs. 524.53 million, 36.08 million and Rs. 11.65 million shown in the Project Completion Report.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions 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 for financing in the Loan and Grant Agreements		Allocation made in the Budget Estimate for the year 2014	Funds utilized			
	US\$ million	Rs. million		during the year 2014		up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	8.13	918.69	1,852.00	1.24	140.58	5.50	614.40
GOSL	1.01	114.13	71.50	0.14	15.83	0.69	76.67
Total	<u>9.14</u>	<u>1,032.82</u>	<u>1,923.50</u>	<u>1.38</u>	<u>156.41</u>	<u>6.19</u>	<u>691.07</u>

3.2 Physical Progress

According to the information received, the Project had taken action to construct buildings for Courts Complex at Mallakam, Kaytes and Chavakachcheri and supply of furniture, office equipments and computers for the use of such Courts Complex. The construction works and the contracts for the supply of assets had been substantially completed as at 31 December 2014.

3.3 Contract Administration

The project had taken action in 03 instances to procure 52 items of furniture, office equipments and computers etc at a cost of Rs. 94.20 million from 03 suppliers for the use of Courts Complex at Mallakam, Kaytes and Chavakachcheri without evaluating prices quoted by the bidders for individual item of assets. It was observed that a sum of Rs. 10.10 million could have been saved if suppliers were selected based on the minimum prices for each item quoted by the bidders individually.

3.4 Closure of the Activities of the Project

Eventhough the activities of the Project were closed as at 30 September 2014, the winding up accounts had not been prepared and financial statements presented accordingly.