

Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post-Tsunami Sri Lanka Project - 2017

The audit of financial statements of the Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post – Tsunami Sri Lanka Project for the period from 01 January to 30 September 2017 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 5.02 of Article V of the Grant Agreement No. GEF-FSP-5-LK dated 23 July 2009 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, then Ministry of Fisheries and Aquatic Resources presently, Ministry of Mahaweli Development and Environment is the Executing Agency and the Department of Coast Conservation and Coastal Resource Management is the Implementing Agency of the Project. The objective of the Project is to mainstream restoration, management and conservation of globally important ecosystems affected by Tsunami to support sustainable livelihoods and reduce vulnerability to climate change along the east coast of Sri Lanka. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 14.84 million equivalent Rs. 1,985 million. Out of that the Global Environmental Facility and the International Fund for Agricultural Development had agreed to finance US\$ 7.27 million and US\$ 7.08 million respectively. Further, the World Conservation Union had agreed to finance US\$ 0.06 million. The contribution of the Government of Sri Lanka amounted to Rs. 55.90 million. The Project commenced its activities on 10 September 2010 and scheduled to be completed by 10 December 2016. Subsequently, the Project period was extended up to 30 September 2017.

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 and the International Fund for Agriculture Development Guidelines for Project Audits. 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 controls relevant to the preparation and fair presentation of the financial statements of the project 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 internal control of the Project. 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 evidences I have obtained are 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 the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 30 September 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (d) 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 funding agencies, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of purchases made out of the Grant, etc.
- (e) Whether withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipment supplied under the Grant 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 the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Grant 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 accounting period from 01 January to 30 September 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 September 2017 in accordance with Generally Accepted Accounting Principles and the IFAD Guidelines,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 30 September 2017 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 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.

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 period under review and up to 30 September 2017 are shown below.

Source	Amount agreed to be financed as per the Grant Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized during the period under review up to 30 September 2017			
	US\$ million	Rs. million		Rs. million	US\$ million	Rs. million	US\$ million
Donor Agencies	14.41	1,929.10	200.00	0.28	43.27	6.29	851.18
GOSL	0.43	55.90	15.30	0.10	15.05	0.30	44.60
Total	<u>14.84</u>	<u>1,985.00</u>	<u>215.30</u>	<u>0.38</u>	<u>58.32</u>	<u>6.59</u>	<u>895.78</u>

According to the above information, out of the total proceeds of Grant amounting to US\$ 14.41 million equivalent to Rs. 1,929.10 million allocated by the Donor Agencies, only a sum of US\$ 6.29 million equivalent to Rs. 851.18 million had been utilized at the end of the period of the Project.

3.2 Physical Performance

The Project had allocated funds under the key activities of development and demonstration of best practice for effective restoration and sustainable management of key coastal ecosystems, mainstreaming effective ecosystem restoration and sustainable management, empowerment of coastal communities and learning, evaluation and adoption management. According to the information received, 71 sub activities under the above mentioned key activities had been completed as at 30 September 2017. However, the physical inspections made by the auditors had revealed that some of the facilities improved by the Project were not utilized for the intended purposes to achieve the objectives of the Project. The observations thereon are made as follows.

- (a) The Project had spent a sum of Rs.1.60 million in 2014 to erect 700 pillars around the Kottukal Lagoon in Pottuvil to demarcate and conserve the Lagoon. According to the test checks carried out on 27 March 2018, it was revealed that only 05 pillars were appeared, out of 68 pillars erected in a distance of 02 kilometres. Further, it was observed that the residents of the area had encroached the Lagoon area and constructed permanent building.
- (b) The action taken by the Project to demarcate and conserve the Kottukal sand dune in Pottuvil had been abandoned due to public protests. It was revealed at the audit investigations that 300 pillars procured at a cost of Rs. 0.80 million in 2014 had remained on the ground even as at 27 March 2018 without taking action to use for the intended purposes.
- (c) A boundary wall had been constructed in 2014 at a cost of Rs. 6.10 million to preserve the sand dune at Pottuvil from unauthorized sand mining. However, no feasibility studies had been carried out thereon. The adjoining central dispensary building had been fully submerged and an access road partly submerged by sand due to improper construction of the boundary wall causing severe difficulties to the people in the area.
- (d) The Project had constructed a boat landing strip for lagoon safari with light house at Panichenkerny in Vaharai, visitors' hall and lagoon park at a cost of Rs.6.90 million to promote the coastal area tourism. The buildings and other improvement works had been handed over to Vaharai Pradeshiya Sabha on 29 November 2017 by the Divisional Secretariat of Vaharai in order to develop the self-employment opportunities through the Community Based Organizations. However, the buildings constructed, safari boats and lagoon park had remained unused even as at 31 March 2018.

- (e) The site inspection made on 04 March 2018 had revealed that the Eco Park at Vaharai constructed by the Project at a total cost of Rs.3.40 million and handed over to the Divisional Secretary Vaharai on 26 December 2014 had remained idle and surrounded with shrubs. Therefore, the objective of establishing of the Eco Park to provide guidance to the public on bio eco system restoration and adaptation had not been achieved.

- (f) The compost yard constructed at a total cost of Rs. 12.80 million and handed over to Kuchchaveli Pradeshiya Sabha on 26 March 2016 had remained idle with machineries installed therein even upto 31 March 2018, due to lack of water supply.