

Design Advance for Northern Province Sustainable Fisheries Development Project - 2017

The audit of financial statements of the Project Design Advance for Northern Province Sustainable Fisheries Development Project for the nine months period ended 31 December 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 Article 1 of the Loan Agreement No. 6011 SRI dated 17 March 2017 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 Loan Agreement of the Project then Ministry of Fisheries and Aquatic Resources Development, presently the Ministry of Fisheries and Aquatic Resources Development and Rural Economy is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are to carry out detailed designing of fisheries harbours, anchorages and landing sites for sustainable utilization of infrastructure for fishing industry. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 1.59 million equivalent to Rs. 242.43 million and out of that US\$ 1.30 million equivalent to Rs. 198.11 million was agreed to be provided by the Asian Development Bank. The Project had commenced its activities on 20 March 2017 and scheduled to be completed by 01 June 2018.

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 as 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 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 identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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, and
- (h) Whether the 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 2017 and the financial statements give a true and fair view of the state of affairs of the project as at 31 December 2017 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) 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 utilization of fund up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
ADB	1.30	198.11	190.00	0.08	12.89
GOSL	0.29	44.32	42.00	0.04	6.31
Total	<u>1.59</u>	<u>242.43</u>	<u>232.00</u>	<u>0.12</u>	<u>19.20</u>

3.2 Physical Progress

According to the paragraph 45 of the Project Administration Manual, the draft report on detailed designs required to be presented by 30 October 2017 and the final report thereon should be submitted as at 30 November 2017. However, the respective designs had not been completed and reports thereon had not been completed even as at 31 December 2017.

3.3 Issues on Financial Controls

The activities of the Project had not been subjected to internal audit, as required by the paragraph 24 of the Project Administration Manual, Financial Regulation No. 134(3) and Management Audit Circular No. 05 of 26 July 2010.

3.4 Extraneous Activities

A sum of Rs. 3.16 million spent by the Project during the year under review to carry out Bathymetric and Topographic Surveys at Point Pedro and Pesalai under the agreements entered by the Project Director with the Chairman of the Fisheries Harbour Corporation on 22 March 2016 and 10 May 2016 was not directly related to achieve the objectives of the Project.