

**Report of the Auditor General on the Financial Statements of the Provincial Roads Project – Uva Province Project Implementation Unit (PIU) for the first Accounting Period from 31 March to 31 December 2010.**

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**1. Opinion**

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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 from 31 March to 31 December 2010 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2010 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposit and withdrawals from the Special (Dollar) Account during the period under review had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2010 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

**2. Financial Statements**  
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**2.1 Financial Performance**  
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According to the financial statements and information made available, the expenditure of the Project - Uva Province Project Implementation Unit (PIU) for the first accounting period from 31 March to 31 December 2010 amounted to Rs. 656,517,564. A summary of the expenditure for the first accounting period from 31 March to 31 December 2010 is given in the following statement.

Item of Expenditure	Expenditure for the first accounting period from 31 March to 31 December 2010
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	Rs.
Civil Works	625,069,513
Furniture and Fittings	1,146,294
Office Equipment	2,070,197
Consultancy Services	5,031,215
Incremental and Operating Cost	23,200,345
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Total	656,517,564
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## **2.2 Special (Dollar) Accounts**

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According to the financial statements and information made available, four separate Special (Dollar) Accounts had been opened for Project Coordinating Unit, Project Implementation Unit –Uva, Project Implementation Unit –Eastern and Project Implementation Unit – Northern Provinces. The operations of the Special (Dollar) Account of the Uva Province Project Implementation Unit during the period under review is given below.

	<u>US\$</u>	<u>Rs.</u>
Initial Advance Received	13,716,776	1,541,141,509
<u>Add</u>		
Replenishments	NIL	NIL
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	13,716,776	1,541,141,509
<u>Less</u>		
Withdrawals (FA)	6,075,872	677,396,183
Foreign Exchange Loss	-	15,964,081
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Balance as at 31 December 2010	7,640,904 =====	847,781,245 =====

### **3. Audit Observations**

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Following observations are made.

#### **3.1 Contract Administration**

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According to the feasibility report for the development of Provincial roads in Uva Province under the Project, 330 kilometres in 22 roads had been identified for development. Out of that 5 contracts aggregating Rs. 3,951,698,957 for the rehabilitation and improvement of 109.93 kilometres of roads have been awarded in November 2010. At the time of audit inspection carried out on 10 May 2011 the physical performance of each contract were behind the target. The Secretary to the Ministry of Local Government and Provincial Councils replied to audit on 27 June 2011 as follows, "There was an abnormal weather pattern in the country during the period. The Uva province has been seriously affected due to heavy rain and unexpected earth slips to the access roads and project roads. Therefore, it was unable to carryout physical activities as planned."

#### **3.2 Appointment of Consultants**

A contract for supervision of 05 civil work contracts in Uva province had been awarded to a foreign consultancy company at a contract sum of Rs.516 million on 16 September 2010. According to the agreement, 1710 man months under 11 top categories to be engaged in this work. Although a sum of Rs.6 million had been paid to the consultant company, details of the deployment of their work force had not been made available to audit.