

Northern Road Connectivity Project – Provincial Component - 2014

The audit of financial statements of the Northern Road Connectivity Project – Provincial Component 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 Section 4.03 of Article (iv) of Loan Agreement No. 2640-SRI(SF) dated 27 August 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Provincial Councils and Regional Development is the Execution Agency and the Provincial Road Development Department of Northern Provincial Council is the Implementation Agency of the Project. The objective of the Project is to improve connectivity within the Northern Province and between the Northern Province and the Southern region of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project is US\$ 27.16 million equivalent to Rs.3,530.8 million and out of that US\$ 24.4 million equivalent to Rs.3,172 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 22 October 2010 and was scheduled to be completed by 30 June 2015.

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 judgement, 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 the 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 identification of purchases made out of the Loan etc,
- d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- e) Whether the funds, materials and equipments 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,
- h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- i) 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 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 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.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) 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 and the utilization of funds during the year under review and as at 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Funds utilized		
			during the year 2014	up to 31 December 2014	
-----	<u>US \$</u> <u>million</u>	<u>Rs.</u> <u>million</u>	<u>Rs.</u> <u>million</u>	<u>US \$</u> <u>million</u>	<u>Rs.</u> <u>million</u>
ADB	24.40	3,172.00	358.97	16.02	2,082.97
GOSL	<u>2.76</u>	<u>358.80</u>	<u>40.47</u>	<u>1.86</u>	<u>242.47</u>
	<u>27.16</u>	<u>3,530.80</u>	<u>399.44</u>	<u>17.88</u>	<u>2,325.44</u>

3.2 Physical Progress

According to the information made available, the activities of the Project is comprised under two parts of which rehabilitation of about 140 kilometres of provincial roads in Vauniya and Mannar Districts along with rehabilitation or replacement of selected bridges in the Northern Province and rehabilitation of administrative buildings. Therefore, the Project had awarded 07 contract packages to rehabilitate 26 roads in Vauniya and Mannar Districts of the Northern Province and rehabilitate 02 administrative buildings of the Northern Provincial Road Development Department. The following observations on the physical progress of the contract packages are made.

- (a) Out of 06 contract packages awarded in February 2011 for road rehabilitation works, 05 contract packages had been completed in 2014 with delays ranging from 11 to 22 months.
- (b) The Contract awarded to rehabilitate Veppankulam - Periyamurippu Road with a length of 26.9 kilometres at a cost of Rs. 369 million had been terminated subsequently without the approval from the Asian Development Bank and the Executing Agency. It was observed that the contractor had been paid a sum of Rs. 448 million at the time of termination of the Contract. Subsequently, 02 contractors had been selected without adopting competitive bidding procedure and awarded the contracts to complete the balance works at a estimated cost of Rs.499 million.
- (c) The contract for rehabilitation works of 02 administrative buildings awarded in June 2014 had shown a slow progress of 63 per cent as at 31 December 2014.

3.3 Extraneous Activities

The following observations were made.

- (a) Computers and accessories procured by the Project at a cost of Rs. 851,800 had been handed over to the Ministry of Provincial Council and Regional Development and used for the purposes which were not related to the activities of the Project.
- (b) A sum of Rs. 300,000 spent by the Project to produce a video programme which described the activities involved by the Ministry of Provincial Council was not related to the activities of the Project.