

## **Provincial Roads Project (Northern Province) - 2014**

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The audit of financial statements of the Provincial Roads Project (Northern Province) 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 4.09(b) of the Financing Agreement No. 4630 - LK dated 11 January 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Financing Agreement of the Provincial Roads Project, then Ministry of Local Government and Provincial Council, presently Ministry of Provincial Councils and Regional Development is the Executing Agency and the Northern Provincial Council is the Implementing Agency of the Project. The main objective of the Project is to improve access to Socio – economic centers in the Northern Province of Sri Lanka through the sustainable management of improved road infrastructure. As per the Project Appraisal Documents, the estimated total cost of the Project is US\$ 21 million equivalent to Rs. 2,399.25 million and total amount was agreed to be provided by the International Development Association . The Project commenced its activities on 31 March 2010 and scheduled to be completed by 31 March 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 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 Financing 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,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Financing 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report. 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing 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 Financing Agreement had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Non- compliance with laws, Rules and Regulations etc**

Annual verification for the year under review on property, plant and equipment procured by the Project had not been carried out to ascertain the physical existence of such assets.

## **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 year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		<u>Funds utilized</u>			
			during the year 2014		up to 31 December 2014	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	21.00	2,399.25	6.17	806.80	15.05	2,023.08
	<u>21.00</u>	<u>2,399.25</u>	<u>6.17</u>	<u>806.80</u>	<u>15.05</u>	<u>2,023.08</u>

### 3.2 Physical Progress

According to the information made available, 04 contract packages had been awarded by the Project to rehabilitate 12 provincial roads with the length of 56.17 kilometres eventhough it was expected to rehabilitate 100 kilometres approximately in the Northern Province. The rehabilitation works of 06 roads with the length of 23.07 kilometres under 02 packages had been completed with delays in period ranging from 150 days to 174 days as at 30 October 2013, out of 12 provincial roads expected to be rehabilitated. The rehabilitation works of other roads with the length of 26.42 kilometres had not been completed even as at 31 December 2014.

### 3.3 Contract Administration

The following observations were made.

- (a) The scope of the road rehabilitation works carried out by the Project had been regularly changed. Thus indicating that the proper ground surveys had not been carried out at the time of preparation of engineering estimates. According to the information received, the quantities included in the Bill of Quantities of the rehabilitation works of Siven Kovil Road, Velanei- Suvuvil Road and Mandathivu Road in Jaffna District were varied significantly ranging from 36 per cent to 250 per cent.
- (b) Eventhough the rehabilitation of 06 provincial roads under 02 packages had been completed and defect liability period was ended as at 30 October 2013, such roads had been taken over by the Northern Province Road Development Department with delays in period ranging from 72 days to 132 days.

- (c) It was observed that time extensions had been granted for the rehabilitation works of 06 provincial roads under 02 packages for over 170 calendar days by the Project Director without valid reasons. In this connection prior concurrence had not been obtained from the Lending Agency.

### **3.4 Matters in Contentious Nature**

The following observations are made.

- (a) A contractor who completed a contract package in previous year had made an additional claim of Rs 68 million and the arbitration process applied thereon was not resolved even as at 30 April 2015.
- (b) It was observed that the contracts for rehabilitation of Sandilipai-Kanthorodai Road, Kuppilan- Kurumbasidy Road had been awarded in December 2013 without signing a Contract Agreement. However, an Memorandum of Understanding in this regard had been signed by the contractor with the Northern Provincial Council only on 10 October 2014.
- (c) It was observed that the monthly building rent amounting to Rs 50,000 paying by the Project for the Project Offices was much higher than the rents prevailing in the area. However, the Project had not taken action to obtain assessments thereon from the Department of Valuation.