

## **Road Sector Assistance Project – Rural Road Pilot - 2014**

The audit of financial statements of the Road Sector Assistance Project – Rural Road Pilot 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 4.01(b) of Article IV of the Development Credit Agreement No 4138 CE dated 16 January 2006 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 Development Credit Agreement of the Road Sector Assistance Project, then Ministry of Local Government and Provincial Councils presently, the Ministry of Provincial Councils and Regional Development is the Implementing Agency of the Project. The main objectives of the Project are to carrying out a pilot programme under three contracts for Provincial Councils and nine contracts for Pradeshiya Sabhas consisting of the following.

- (a) Strengthening of the rural road management and maintenance system of the Pradeshiya Sabhas.
- (b) Rehabilitation and maintenance of approximately 160 kilometres of rural roads to improve rural roads in accessibility;
- (c) Provision of technical assistant including the strengthening of rural road management and maintenance system of the projects to be carried out by Pradeshiya Sabhas and contract management and construction supervision;
- (d) Training and institutional strengthening including capacity building for staff of Ministry of Local Government and Provincial Councils, Project staff of the Provincial Councils and Pradeshiya Sabhas, contractors and consultants;
- (e) Undertaking an independent technical audit for Part B of the Project; and
- (f) Provision of necessary goods and equipment required for Part B of the Project.

As per the Credit Agreement, the estimated total cost of the Project is US\$ 14.61 million equivalent to Rs.1,657 million and out of that US\$ 14.40 million equivalent to Rs. 1,632 million was agreed to be provided by the International Development Association. The Project commenced its activities on 01 May 2006 and was scheduled to be completed by 31 March 2011. Subsequently, the period of the Project had been extended up to 30 September 2014. However, the financial statement for the year ended 31 December 2014 had been presented for audit.

### **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 Sri Lanka Accounting Standards 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 identification of the 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 Development Credit 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 Sri Lanka Accounting Standards.
- (i) Whether 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 Development Credit 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 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 Sri Lanka Accounting Standard.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure (SOE) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Development Credit 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 Development Credit 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 year under review and as at 31 December 2014 are shown below.

Sources	Amount agreed to be financed as per Development Credit Agreement		Budgetary Provision for the year 2014		Utilization of Funds			
	US\$ million	Rs million	US\$ million	Rs million	During the year under review		As at 31 December 2014	
	US\$ million	Rs million	US\$ million	Rs million	US\$ million	Rs million	US\$ million	Rs million
IDA	14.40	1,632	0.08	10.05	0.08	10.50	14.40	1,632.50
GOSL	0.21	25	-	0.50	-	0.37	0.17	19.50
Total	14.61	1,657	0.08	10.55	0.08	10.87	14.57	1,652.00

#### 3.2 Physical Progress

The following observations are made.

- According to the information received, the Project had completed the rehabilitation works of rural roads with the length of 69 kilometres, 46 kilometres and 46.4 kilometres in the Uva Province, North Central Province and Southern Province respectively by 31 December 2011. The Project had continued operations upto 30 September 2014 without action plans for the subsequent period. According to the Secretary to the Ministry of Provincial Councils and Regional Development, the awareness programs had been carried out in subsequent period and no action plans prepared thereon.
- According to the information received, value of the variations of the scope of the works of Millawa-Tholabowila Road, Wewagama-kuda Idiwawe Mawatha Road and Janadhipathi Mawatha in Southern Province which were completed by December 2011 had exceeded by 90.2 per cent 62.88 per cent and 49.42 per cent respectively. However, the reasons for such variations and the approvals of the Tender Boards etc had not been received for audit. According to the explanations made by the Secretary to the Ministry of Provincial Councils and Regional Development, the approval of the Southern Provincial Council had been received on 20 September 2012 for that purpose.

- (c) Even though a Manual for Maintenance of Rural Road had been prepared and distributed among the Provincial Councils, a proper mechanism had not been established by the Project to implement the road maintenance procedures proposed by the Manual and follow-up action to be taken accordingly.

### **3.3 Fruitless Transactions**

Even though the activities of the Project had been closed as at 30 September 2014, a sum of Rs.479,250 had been spent by the Project for the purpose of air travel to Hambantota for 42 field officers of the Project and other officers attached to the Line Ministry on 28 September 2014. The purpose of the travel by air to Hambantota was not explained for audit properly.

### **3.4 Closing of the activities of the Project**

The activities of the Project had been closed on 30 September 2014, the Project Completion Report on Rural Road Pilot Component had not been prepared and submitted to the Executing Agency even as at 31 March 2015.