

Northern Road Connectivity Project - Provincial --2013.

The audit of financial statements of the Northern Road Connectivity Project - Provincial Component for the year ended 31 December 2013 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 the 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 (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Northern Road Connectivity Project, the Provincial Road Development Department of Northern Provincial Council is the Implementing Agency and the Ministry of Local Government and Provincial Councils is the Executing 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. The Project shall comprise:

Part B. Rehabilitation and Replacement

Rehabilitation of about 140 kilometers of provincial roads in Vauniya and Mannar Districts and rehabilitation and/or replacement of selected bridges in the Northern Province.

Part C. Rehabilitation of Northern Provincial Road Development Department's Office

According to the Project Administration Manual, the estimated total cost of the Project is US\$ 27.16 million and out of that US\$ 24.4 million (SDR 16.08 million) was agreed to be financed by Lending Agency and the sum of US\$ 2.76 million will be provided by the GOSL for the taxes and duties of the Project. The Project commenced its activities on 22 October 2010 and is 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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.

- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances withdrawals from and replenishment to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (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.

3. 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 2013 and the financial statements give a true and fair view of the state

of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) opening and closing balances, the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 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,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 449,854,274 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 1,926,118,090. A summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are given bellow.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	<u>2013</u>	<u>2012</u>	
	Rs.	Rs.	Rs.
Civil Works	413,838,409	756,041,451	1,850,134,651
Fixed Assets	765,982	143,500	4,162,353
Loan Interest	15,797,069	9,912,013	28,741,297
Project Management Cost	19,452,814	14,833,351	48,079,789
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	449,854,274	780,930,315	1,931,118,090
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4.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account for the year ended 31 December 2013 and the balance available in that account as at 31 December 2013 are given below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2013	17,654.06	2,244,905
<u>Add</u>		
Replenishments	2,796,446.31	359,017,772
Foreign Exchange Gain	-	2,088,648
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	2,814,100.37	363,351,325
<u>Less</u>		
Withdrawals	2,477,424.08	319,329,889
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Balance as at 31 December 2013	336,676.29	44,021,436
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5. Audit Observations

The following observations are made.

5.1. Funds Utilization

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and actual fund utilization as at 31 December 2013 are shown below.

	Estimated Total Cost of the Project		Budgetary Provision for the year 2013	Funds Utilized during the year 2013	Cumulative Funds Utilization up to 31 December 2013	
	US\$ Mn.	Rs. Mn	Rs. Mn	Rs. Mn	US\$ Mn.	Rs. Mn
ADB	24.40	3,172.0	449.5	405.0	13.26	1,724
GOSL	2.76	358.8	57.6	44.9	1.55	202
Total	27.16	3,530.8	507.1	449.9	14.81	1,926

5.2 Physical Performance

The following observations are made.

- (a) The Project had awarded six contracts in February 2011 for rehabilitation of six provincial roads in the Northern Province with the length of 140 kilometres at a cost of Rs.2, 509 million. Financial and physical progress of each contract is given below.

Road	Length Kilometres	Estimated Cost of the Contract (with VAT)	Actual Cost of the Contract as at 31 December 2013 (with VAT)	Due date of Completion	Actual date of Completion	Work completed as at 31 December 2013 as a Percentage
		Rs	Rs			
NP01	15.49	457,925,394	428,101,852	12.04.2013	12.04.2013	100
NP02	26.50	517,584,090	367,305,995	30.10.2013	-	66
NP03	17.32	378,316,673	335,637,874	18.11.2012	18.11.2012	100
NP04	26	351,923,141	256,107,270	23.05.2013	23.06.2013	100
NP05	28.80	448,435,022	290,003,389	23.05.2013	23.05.2013	100
NP06	27.20	355,416,235	172,978,271	23.05.2013	31.05.2013	65

- (b) The following observations are made in connection with the physical performance of the above rehabilitation works.

- (i) Period of the contract for rehabilitation of Veppankulam – Periyamurippu (NP02) Road which was originally expected to be completed in February 2013 had been extended up to April 2014. According to the information made available, 66 percent of rehabilitation works had only been completed as at 31 December 2013. Therefore the contract had been terminated due to poor performance of the contractor. Action had not been taken even as at 30 June 2014 to re-award the contract.
- (ii) The rehabilitation works of Puthoo – Palamadu (NP06) Road had also shown a slow progress of 65 per cent at the end of the year under review.
- (iii) Regular changes made in the scope of the works on drainage system and structures of several contracts had indicated that a proper ground surveys had not been carried out to determine the nature and quantity of works to be carried out. At the test check, it was revealed that the drainage system and structural works of Irretiperiyakulam – Puthoor, Cheddhikulam – Thudarikulam and Pandichurichhcan – Andiyapuliyankulam Roads (NP04) had been valued at Rs. 4.48 million in original Bill of Quantities had been revised as Rs. 13.77 million whilst drainage system and structural works of Mahiankulam – Pallamadu Road (NP05) valued at Rs. 6.2 million originally had been revised as 24.49 million.

5.3 Construction of Office Building

Although The construction of an office building is included under Part "C" of the Project on "Rehabilitation of Northern Provincial Road Development Department's office" at a cost of Rs. 70 million, the contract had not been awarded even by 30 June 2014.