

Provincial Roads Project – Project Coordinating Unit (PCU) - 2013.

The audit of financial statements of the Provincial Roads Project – Project Coordinating Unit (PCU) 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 4.09(b) of the Loan 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 Loan Agreement of the Provincial Roads Project, the Ministry of Local Government and Provincial Councils is the executing agency and the Uva, Eastern and Northern Provincial Councils are the implementing agencies of the Project. The main objective of the Project is to improve access to socio - economic centres in the Uva, Eastern and Northern Provinces of the recipient through the sustainable management of improved road infrastructure. As per the Project Appraisal Document, the estimated total cost of the Project for Project Coordinating Unit is US\$ 3.8 million and the total amount was agreed to be financed by the International Development Association (IDA). The Project commenced its activities on 31 March 2010 and was 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. 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 limitation 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 followings.

- (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 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 replenishments to the Special (Dollar) 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) 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 PCU of the Project for the year ended 31 December 2013 amounted to Rs. 63,844,928 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 235,146,757. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

Item of Expenditure -----	Expenditure for the year		Cumulative Expenditure as at 31 December 2013 -----
	ended 31 December 2013 -----	2012 -----	
	Rs.	Rs.	Rs.
Furniture and Fittings	500,000	58,785	2,974,705
Office Equipment	583,238	281,560	9,873,823
Motor Vehicles	-	38,958,925	81,977,158
Guide Books	5,250	-	31,650

Software	130,700	-	130,700
Consultancy Services	19,066,243	11,352,132	42,316,313
Training	20,850,633	7,324,438	33,346,669
Incremental and Operating Cost	22,708,864	20,636,049	64,495,739
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Total	63,844,928	78,611,889	235,146,757
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4.2 Special (Dollar) Accounts

According to the financial statements and information made available, four separate Special (Dollar) Accounts had been opened for the 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 PCU during the year under review and the balance available therein as at 31 December 2013 are given below.

	<u>US\$</u>	<u>RS.</u>	
Balance as at 01 January 2013	5,928.39	753,859	
<u>Add</u>			
Replenishments	976,612.64	125,955,656	
Foreign Exchange Gain	-	1,081,902	
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	982,541.03	127,791,417	
<u>Less</u>			
Withdrawals	527,397.21	68,279,997	
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Balance as at 31 December 2013	455,143.82	59,511,420	
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5. Audit Observations

The Board of survey for the fixed assets valued at Rs. 94,857,336 which should be conducted at the end of the year in terms of Financial Regulation 756 had not been conducted.

6 Financial and Operating Review

6.1 Financial Review

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

Sources	Utilization of funds						Funds Utilized up to 31 st December 2013		Utilization up to 31 st December 2013 as a percentage of the provision
	Amount agreed for financing in the Loan agreement		Budgetary provision for the year 2013		Funds Utilized during the year 2013				
-----	USD	Rs	USD	Rs	USD	Rs.	USD	Rs	%
	Mn	Mn	Mn	.Mn	Mn	Mn	Mn	.Mn	
World Bank	3.8	462.5	0.5	65.0	0.5	63.8	1.9	235	50%

It was observed that 50% of funds allocated had been utilized after implementing of the Project over three years and nine months period.

6.2 Operating Review

- (a) As per the Circular No. PPA/6/1/1 dated 31 December 1993 of the Secretary to the President and Circular No. CA/1/1/16/1 dated 09 July 2012 of the Ministry of Finance and Planning, the officers who attended for the foreign training should submit reports relating to the respective training within seven days after returning to the island. Although the Project had spent a sum of Rs

19,958,029 for foreign training of 32 officers in 2013 and only one officer had submitted his report as required by the said circulars.

- (b) The transactions made by the Project during the year under review were not subjected to internal audit as required by Paragraphs 29 and 30 of the Annex - 07 of the Project Appraisal Document.