

Provincial Roads Project – Uva Province - 2013.

The audit of financial statements of the Provincial Roads Project -Uva Province 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, Uva, Eastern and Northern Provincial Councils are the implementing agencies and the Ministry of Local Government and Provincial Councils is the executing agency of the Project. The main objective of the Project is to improve access to socio-economic centers 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 - Uva Province is US\$ 65.34 million and out of that US\$ 57.74 million 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 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 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 the 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 - Uva Province for the year ended 31 December 2013 amounted to Rs.2,544,335,650 and the cumulative expenditure as at 31 December 2013 amounted to Rs.5,580,639,968. 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 ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013	2012	
	Rs.	Rs.	Rs.
Civil Works	1,617,209,664	786,063,771	3,873,907,575
Road Maintenance	730,787,805	371,665,641	1,213,948,793
Consultancy Services	175,418,612	111,029,406	422,302,057
Property Plant and Machineries	74,524	5,204,710	10,934,395
Training and Workshops	-	(294,000)	100,000
Incremental and Operating Cost	20,845,045	18,005,123	59,447,148
Total	2,544,335,650	1,291,674,651	5,580,639,968

4.2 Special (Dollar) Accounts

According to the financial statements and information made available, four separate Special (Dollar) Accounts had been opened for 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 Uva Province during the year under review is given below.

	US\$	Rs.
Balance as at 01 January 2013	3,866,083.03	491,614,211
<u>Add</u>		
Replenishments	15,475,901.00	1,982,470,659
Foreign Exchange Gain	-	23,170,618
	19,341,984.03	2,497,255,488
<u>Less</u>		
Withdrawals	17,918,920.26	2,311,185,631
Balance as at 31 December 2013	1,423,063.77	186,069,857

5. Audit Observations

Non- compliance with Laws, Rules, Regulations etc.

Internal audits on the affairs of the Project had not been carried out by the Internal Audit Section of the Ministry of Local Government and Provincial Councils even though the quarterly internal audit reports are required to be submitted to the Implementation Agency and the IDA, as per paragraphs 29 and 30 of Annex 07 of the Project Appraisal Document.

6. Financial and Operating Review

6.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review to the Project Implementation Unit – Uva Province and the utilization of funds during the year under review and the position as at 31 December 2013 are shown below.

Sources	Utilization of funds				Funds Utilized up to 31 December 2013		Utilization up to 31 December 2013 as a percentage of the provision
	Amount agreed for financing as per Loan Agreement		Budgetary provision for the year 2013	Funds Utilized during the year 2013	USD Mn	Rs. Mn	
	USD Mn	Rs. Mn	Rs.Mn	Rs. Mn	USD Mn	Rs. Mn	%
IDA	57.74	7,542	2,339	2,311.18	42.47	5,207.19	69
GOSL	7.60	950	279	233.15	-	373.44	32
Total	65.34	8,492	2,618	2,544.33		5,580.63	66

It was observed that out of total fund allocation, 66% of funds had been utilized, after elapsing of 75 per cent of Project period as at 31 December 2013.

6.2 Physical Performance

(a) Rehabilitation and Improvement of Provincial Roads

According to the Project Appraisal Document, six provincial roads with a length of 117.06 km in Uva Province were expected to be rehabilitated at a cost of Rs.4,879 million (Excluding VAT). However, four roads with the length of 82.51 km had been completed as at 31 December 2013. Following observations are made in this regard.

- (i) The contract for rehabilitation of Galauda- Kandeketiya – Kirimetiya Road (Uva -02) with the length of 20.05 km had been awarded in November 2010 and such rehabilitation works had shown slow progress.
- (ii) According to the information made available the rehabilitation works of Kottegoda – Maspenna- Yalagamuwa Road (Uva-01) had been substantially completed on 17 September 2013. Further, an inspection had been carried out at locations from 1+860 km to 15+750 km of the Road on 25 September 2013 by the National Building Research Organization (NBRO) on the request made by the Project. As per the recommendations made by the NBRO, fresh contour surveys to be carried out in two locations and slope movement survey to be carried out at other location. However, evidence had not been made available for audit of the implementation of such recommendations. Further, it was at the audit field visit carried out on 22 April 2014 at the respective road that a risk on damaging the carriage way at the Section of 20+000 km to 23+420 km of the road with a deep slope due to lack of proper drainage systems. The road sides were washed off during the rainy season.
- (iii) Further, the drainage constructed at the Haggala Ford- Mc Donald Road (Uva -04) at 4+450 km had been forcefully closed by the residents and as

a result, there was a risk on damaging the road as well as retaining wall at the road side.

- (iv) The retaining wall constructed at 3+390 km of the Meditale- Kiriwehera road (Uva -05) at a cost of Rs 3,052,719 had completely damaged on 17 December 2012. It was decided to recover the cost of construction from the contractor instead of taking action to get it renovated by the contractor as the existence of respective retaining wall is a crucial factor for the sustainability of the condition of the road.

(b) Routine Road Maintenance and Development of a Road Maintenance Strategy for Uva Province

Following observations are made.

- (i) According to the information made available, a sum of US\$ 10 million had been allocated for routine maintenance works of the roads in Uva Province and 76 contract packages had been awarded under this component. However, physical progress of the routine maintenance works could not be evaluated as the methodology for supervision of road maintenance works was not made available for audit.
- (ii) The activities of the development of a road maintenance strategy for Uva Province had not been completed even as at 31 December 2013.

6.3 Matters in Contentious Nature

Allowances aggregating Rs. 852,226 had been paid as at 31 December 2013 by the Project to seven officers of the Regional Offices of the Road Development Authority and a Planning Officer of the Ministry of Roads of the Uva Provincial Council for attending for land settlement and other works. Further a Consultant and an Environmental officer had also been employed by the Project for duties in similar matter. It was observed that some of the officers had been continuously paid even after the completion of rehabilitation works of several roads as at 31 December 2013.