

**Provincial Roads Project – Uva Province - 2011.**

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**1. Opinion**

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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 2011 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2011 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 2011 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2011 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.

## 2. Financial Statements

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### 2.1 Financial Performance

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According to the financial statements and information made available, the expenditure of the Project - Uva Province for the year ended 31 December 2011 amounted to Rs.1,078,043,188 and the cumulative expenditure as at 31 December 2011 amounted to Rs.1,734,560,752. A summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2011 is given in the following statement.

Item of Expenditure	Expenditure for the year ended 31 December 2011	Expenditure for the 1 <sup>st</sup> Accounting period from 31 March to 31 December 2010	Cumulative Expenditure as at 31 December 2011
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	Rs.	Rs.	Rs.
Civil Works	845,591,627	625,069,513	1,470,661,140
Road Maintenance	111,495,347	-	111,495,347
Furniture and Fittings	92,004	1,146,294	1,238,298
Office Equipment	2,346,667	2,070,197	4,416,864
Consultancy Services	130,822,824	5,031,215	135,854,039
Training and Workshops	394,000	-	394,000
Incremental and Operating Cost	13,360,716	7,236,264	20,596,980
Revaluation and Devaluation A/C	(26,059,997)	15,964,081	(10,095,916)
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Total	1,078,043,188	656,517,564	1,734,560,752
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## 2.2 Special (Dollar) Accounts

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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 are given below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2011	7,640,904.21	847,781,245
<u>Add</u>		
Replenishments	8,100,667.33	894,298,282
Foreign Exchange Gain	-	26,059,997
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	15,741,571.54	1,768,139,524
<u>Less</u>		
Withdrawals (FA)	9,152,864.45	1,017,963,434
Withdrawals (RFA)	81,528.57	8,999,997
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Balance as at 31 December 2011	6,507,178.52	741,176,093
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## 3. Audit Observations

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Following observations are made.

1. Extension of time had been granted for 04 roads out of 05 roads which should be developed by the end of the year under review. It was not possible to examine the progress according to the work plan as the work plan on the construction works was not made available at the physical inspection of these roads carried out on 29 May 2012. An uncertainty over the possibility of completion of construction within the specified period was observed. The physical and financial progress of these roads as at 31 December 2011 is given below.

Road Number	Date of Commencement of work	Due date of completion	Number of days extension granted	Due date of completion after extension	Physical Progress as at 31 Dec. 2011	Financial Progress as at 31 Dec. 2011
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			Days		%	%
UVA 01	01.11.2010	30.10.2012	73	11.01.2013	44.06	52.00
UVA 02	01.11.2010	31.11.2012	--	30.11.2012	24.03	28.00
UVA 03	08.11.2010	06.11.2012	23	29.11.2012	35.01	34.59
UVA 04	26.11.2010	26.10.2012	41	01.12.2012	61.02	60.02
UVA 05	05.12.2010	05.12.2012	25	30.12.2012	36.04	42.25

2. Before commencement of the operation of the Project, a comprehensive detailed action plan highlighting financial and physical targets in monthly, quarterly biannually etc. with fixing responsibilities for the target should have been prepared covering, entire period of the Project to ensure the achievement of the Project objectives within the specific project period. However, such a plan had not been prepared and implemented.
3. According to Nos. 29 and 30 of the Annex No. 7 of the Project Appraisal Document an Internal Audit should be carried out and its reports on quarterly basis should be sent to the World Bank and the Project Implementing Sub-branch. It was observed that instead of issuing Quarterly Reports only one audit query had been sent to the implementing agency by the Internal Audit Unit of the Ministry of Local Government and Provincial Councils during the year under review.
4. The Boards of Survey for the fixed assets valued at Rs.5,446,579 which should be conducted at the end of the year in terms of Financial Regulation 756 had not been conducted.
5. The Project Director who served up to 10 July 2011 had not handed over the equipment valued at Rs.197,735 which he used even up to 29 May 2012.
6. Even though the Pay As You Earn Tax should be recovered from the employees earning more than Rs.50,000 per month and remit to the Department of Inland Revenue in terms of the Inland Revenue Circular No. PAYE/Tax/01/2011 dated 01 April 2011, the PAYE Tax amounting to Rs.48,142 in respect of the period April to October 2011 had not been recovered and remitted to the Department of Inland Revenue.

