

Hatton-Nuwara Eliya Road Improvement Project – 2013

The audit of financial statements of the Hatton-Nuwara Eliya Road Improvement Project 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. The Project is implemented under the Loan Agreement No. SRI-20 dated 02 November 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Export-Import Bank of Korea on behalf of the Government of the Republic of Korea.

1.2 Implementation, Objectives, Funding and Duration of the Project.

According to the Loan Agreement of the Hatton-Nuwara Eliya Road Improvement Project, the Road Development Authority (RDA) is the Implementing Agency of the Project. The objectives of the Project are; Stimulating Socio-economic growth and development balance in the Southern Province by improving access to markets and providing employment opportunities and social services from Hatton to Nuwara Eliya District. As per the Loan Agreement, the estimated total cost of the Project was Rs. 5,618 million and out of that Rs.4,501 million pre presenting 80 per cent of total cost was agreed to be financed by the Export- Import Bank of Korea (EDCF). However, the total cost estimate had been increased up to Rs. 5,685 million with the approval of the EDCF. The Project commenced its activities on 01 December 2011 and was scheduled to be completed within 30 months from the date of commencement. However, the date of completion had been extended up to 02 March 2015 due to additional works identified during the year under review. As a result, the total cost estimate had been further increased up to Rs. 9,061 million by the Project.

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 Financial Reporting Standards. 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 test 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.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, 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 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, and
- (d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year under review amounted to Rs. 1,766 million and the cumulative expenditure as at 31 December 2013 amounted to Rs. 2,998 million. The following statement shows a summary of the expenditure for the year under review, the expenditure for the previous year and the cumulative expenditure as at 31 December 2013.

<u>Item</u>	<u>Expenditure for the year ended 31</u>		<u>Cumulative expenditure as at</u>
	<u>December</u>		<u>31 December 2013</u>
	2013	2012	
	Rs.	Rs.	Rs.
Fixed Assets	(35,596)	146,656	129,585
Work-in-Progress	<u>1,765,664,857</u>	<u>1,102,215,706</u>	<u>2,998,000,297</u>
	<u>1,765,629,261</u>	<u>1,102,362,362</u>	<u>2,998,129,882</u>

5. Audit Observations

5.1 Accounting Deficiency

A sum of Rs. 199,800 incurred for printing of booklets for Deyata Kirula exhibition which was extraneous for the objectives of the Project had been charged as expenses of the Project.

5.2 Non Compliance with Laws, Rules and Regulations

Contrary to the Public Finance Circular No. 353/(5) dated 31 August 2004, running charts had not been prepared for vehicles hired by the Project.

6. Financial and Physical Performance

6.1 Utilization of Funds

According to the financial statements and information made available, certain significant statistics relating to the loan proceeds agreed to be provided, budgetary provision and utilization of funds during the year under review and utilization of funds as at 31 December 2013 are shown below.

Sources	Amount agreed in the Loan Agreement		Budgetary provision for the year of 2013	Funds utilized during 2013	Accumulated fund utilized up to 31 December 2013	Utilization for the period as a percentage
	US \$.Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	
EDCF	35.37	3,980.38	1,004.62	1,004.62	2,445.09	100 %
GOSL	<u>15.14</u>	<u>1,704.62</u>	<u>86.76</u>	<u>75.68</u>	<u>116.15</u>	87%
	<u>50.51</u>	<u>5,685.00</u>	<u>1,091.38</u>	<u>1,080.30*</u>	<u>2,561.24*</u>	

*These amounts differ from the amount shown in the paragraph 4.1 in this report as payables as at 31 December 2013 and retention money not included.

6.2 Contract Administration

The following observations are made.

- (a) Even though a sum of Rs. 95,427,826 had been spent by the Project during the year under review under 05 variation orders, such variation orders had not been approved by the Project Director up to 31 December 2014.
- (b) It was observed at the physical inspection that soil excavated during the road rehabilitation works was deposited in the Kothmale river bank causing soil erosion in the main catchment area of the Upper Kothmale Reservoir. The Project had not deployed Environmental Expert to monitor such environmental issues. However, recommendation on environmental protection had been issued by the Central Environmental Authority without considering the above matter.
- (c) As a result of protests of the shop owners of the Thalawakele Town, the Project had decided to reduce the width of 0.4 metres the pedestrian movement from 88+200 kilometre to 88 + 400 kilometre at the town area as against the standard width of 1.5 meters.

- (d)** Although the Contractor had mobilized at the work site on 01 December 2011, the constructions works of a bypass at Radella, a tunnel of Kotagala and an under pass at Nanuoya had been commenced with delays. As a result of this, the period of the Project was extended.
- (e)** Further, according to the Letter No.PED/HNE/13-1069 of 05 December 2013 of the Team Leader; qualified personnel such as Representatives of the Contractor, Quality Assurance Manager, Construction Manager and Chief Engineer had not been deployed by the Contractor to ensure quality assurance and smooth functioning of road rehabilitation works.
- (f)** According to the Project Director's Letter No.RDA/MFAP/EDCF/Cons dated 13 February 2013, it was observed that the service of a Material Engineer had not been obtained during the trial paving of wearing course. This activity was very important as the success of road reconstruction depends on the quality assurance of wearing course.