

PADENIYA – ANURADHAPURA ROAD IMPROVEMENT PROJECT - 2013

The audit of financial statements of the Padeniya – Anuradhapura 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. This Project is implemented under the Loan Agreement No.SRI-18 of the Economic Development Co-operation Fund (EDCF) entered into between the Export and Import Bank of Korea (Exim Bank) which is the Government Agency for the Economic Development Cooperation Fund and the Government of the Democratic Socialist Republic of Sri Lanka (GOSL) on 19 December 2008 for the improvement of 80.8 kilometre from Padeniya to Anuradhapura Road.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the executing and implementing agencies of the Project are Ministry of Highways Ports and Shipping (MHPS) and the Road Development Authority (RDA) respectively. The objectives of the Project are (a) to activate the region's exchange in goods and people, as well as promote national economic development and balanced regional development by cutting social costs and raising industrial competitiveness through improvement of the road section between Padeniya – Anuradhapura road located in the key traffic point of the Northern Central region of Sri Lanka and (b) to link the road to the Katunayake – Padeniya Section also being planned and it is hoped to strengthen the international competitiveness of Sri Lanka's tourism industry by facilitating passenger transportation between the Bandaranayake International Airport located in Katunayake and the Northern Central region of Sri Lanka, which is rich in cultural heritage and tourist attraction. As per the Loan Agreement, the estimated cost of the Project was Rs. 9,670 million and out of that, a sum of Rs. 7,554.03 million equivalent to US\$ 55 million was agreed to be financed by the EDCF. The initial Loan amount had been increased by a Supplementary Loan of US\$ 11.32 million equivalent to Rs. 1,232.90 million on November 2012. The activities of the Project had been commenced on 01 July 2009 and scheduled to be completed within 30 months by 01 January 2012. However, the activities of the Project was completed only on 30 November 2012 and the financial statements had been prepared for the year ended 31 December 2013.

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.

(b) 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 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 the 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) Whether the financial covenants laid down in the Loan Agreement had been complied with.

(c) **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) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) 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 under review amounted to Rs. 2,188,658,160 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 10,579,689,658. The following statement shows a summary of expenditure for the year under review, the preceding year and the cumulative expenditure as at 31 December 2013.

Item of Expenditure

	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013 Rs	2012 Rs	Rs
Fixed Assets	-	8,200	92,286
Civil Works	335,278,224	4,783,790,852	9,557,525,894
Consultancy Services	103,290,530	263,565,997	751,641,073
Land Acquisitions	48,140,662	20,738,261	136,202,250
Administration Cost	11,599,286	27,943,267	120,767,821
Research and Development Expenditure	-	-	1,470,365
	<u>2,188,658,160</u>	<u>3,011,540,536</u>	<u>10,579,689,658</u>

5. Audit Observations

A sum of Rs. 11,927,969 spent by the Project to carry out the activities assigned to other Projects had been treated as the cost incurred by this Project .

6. Financial and Operating Review

6.1 Utilization of Funds

According to the financial statements and information made available, certain significant statistics relating to the financing of the Project, budgetary provision and utilization of Funds during the year under review and up to the end of the year under review are shown below.

Source	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary Provision for the year 2013</u>	<u>Utilization of Funds for the year 2013</u>	<u>Funds Utilized upto 31 December 2013</u>
	US\$ Mn)	Rs. (Mn)	Rs.(Mn)	Rs.(Mn)	Rs.(Mn)
EDCF	66.32	8,786.93	1,517.47	1,517.47	9,292.15
GOSL	-	2,115.97	659.33	671.18	1,286.85
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Total	66.32	10,902.90	2,176.80	2,188.65	10,579.00
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6.2 Contract Administration

The following observations are made.

- (a) Out of the contribution received from Government of Sri Lanka, the Project had spent a sum of Rs 431,403,850 to compensate the foreign exchange loss incurred by the Contractor due to the provisions made in the Supplementary Loan Agreement. In addition, financial charges amounting to Rs, 13,475,520 had also been paid by the Project to the Contractor due to delays in settling claims.
- (b) It was observed that the variations valued at Rs 329,129,118 had been made to the original Bill of Quantities of the road reconstruction works. Further, it was revealed that many of such variations could have been minimized if proper ground surveys of the road had been carried out at the initial stages. In addition, allocations amounting to Rs. 152,306,769 made for the price contingencies of the initial Contract Agreement had been increased up to Rs. 270,442,407, as a result of changes of the prices quoted in the original Bill of Quantities.

7. Activities on Land Acquisitions

The following observations are made.

- (a) Even though the road improvement works were completed on 30 November 2012 according to the revised work programme, the Project had spent a sum of Rs. 48,140,662 during the year under review for land acquisition purposes. The cumulative expenditure incurred in this connection amounted to Rs. 136,202,250 as at 31 December 2013.
- (b) According to the details furnished by the Project Director, 1744 plots of land in 8 Divisional Secretariats including crown lands were expected to be acquired. However, compensation had been paid as at 31 December 2013 only for 426 plots of land. Out of that, only 15 plots of land only had been registered at the Land Registry as per Section 44 of the Land Acquisition Act.
- (c) Interest amounting to Rs. 1,457,689 had to be paid by the Project due to delays in paying compensation for land owners.
- (d) According to the Circular No. 01/2009 dated June 2009 of the Secretary to the Ministry of Highways and Road Development, incentive allowances aggregating Rs. 205,550 had been paid during the year under review to the staff of Divisional Secretariats engaged in land acquisition activities under the Project. However, it was observed that 07 officers had also been appointed by the Project with a monthly allowance of Rs. 12,500 each for land acquisition purposes and allowances aggregating Rs. 737,500 paid them during the year under review. The reasons for appointing of additional staff by the Project for the land acquisition purposes in addition to the officers attached by the Divisional Secretariats had not been explained for audit.