

Pro-poor Eastern Infrastructure Development Project - 2014

The audit of financial statements of the Pro-poor Eastern Infrastructure Development Project for the year ended 31 December 2014 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 (8) of the Loan Agreement No. SLP 87 dated 28 March 2006 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan Bank for International Co-operation.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Pro-poor Eastern Infrastructure Development Project, then Ministry of Highways, Ports and Shipping, presently the Ministry of Highways and Investment Promotion is the Executing Agency of the Project and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to restore economic foundation of the under developed local economy of the Eastern Province and reduce the regional economic disparity by improving access within and outside of the Project areas through reconstruction of deteriorated and partly Tsunami affected national roads from Akkraipattu and Thirukkondiamadu including construction of a new Bridge at Kallady in Batticaloa. As per the Loan Agreement, the estimated total cost of the Project was Japanese Yen 4,460 million. The Project commenced its activities in 2006 and scheduled to be completed by September 2010. Subsequently, the Project period was extended up to 15 September 2013. However, the activities of the Project had been continued up to 31 December 2014.

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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the Statement of Expenditure (SOE) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (c) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (d) 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 identifications of the purchases made out of the Loan, etc.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.

- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 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 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statement of Expenditure (SOE) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

2.2. Comments on Financial Statement

2.2.1 Accounting Deficiency

Eventhough the reconstruction works of the roads from Akkaraipattu and Thirukkondiamadu and construction of the new bridge at Kallady had been completed and handed over to the Road Development Authority on 30 December 2010 and 15 September 2013 respectively, the total cost of Rs. 6,596 million incurred thereon had been shown continuously in the financial statements, as work-in- progress.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and utilization of funds during the year under review and the up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	During the year under review	<u>Funds utilization</u>	
	Japan Yen million	Rs. million			Rs. million	As at 31 December 2014
JICA	4,460	6,158	-	-	4,837	6,205
GOSL	-	1,532	82.91	82.91	-	1,111
Total	<u>4,460</u>	<u>7,690</u>	<u>82.91</u>	<u>82.91</u>	<u>4,837</u>	<u>7,316</u>

3.2 Physical Progress

The contracts for reconstruction of 100 kilometers of the national roads from Akkaraipattu to Thirukkondiamadu and construction of new bridge at Kallady had been awarded on 09 November 2007 to a foreign contractor at an estimated cost of Rs. 3,806.80 million and expected to be completed within 30 months. However, the reconstruction of the national road had only been completed by the foreign contractor

in December 2010 with a delays in 06 months and a sum of Rs. 3,102.88 million spent thereon. Therefore, the contract for the construction of the new bridge had been re-awarded to a state owned Corporation at an estimated cost of Rs. 813.47 million and expected to be completed by 08 January 2012. The bridge construction works had been completed only in September 2013 with a delay in 1 ½ years at a cost of Rs. 1,113.72 million. Therefore, the Project had incurred a sum of Rs. 409.80 million additionally to complete the reconstruction of the national roads and construction of the bridge.

3.3 Matters in Contentious nature

The income tax aggregating Rs. 9.22 million paid on profits earned by the contractor on activities of the Project as at 31 December 2014 had been reimbursed by the Project. Further, the Pay As You Earn Tax amounting to Rs. 16.55 million paid by the Project on remuneration of the Consultant had not been recovered.