

Provincial Roads Project – Project Coordinating Unit - 2015

The audit of financial statements of the Provincial Roads Project - Project Coordinating Unit for the period from 01 January to 15 October 2015 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 Agency (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Local Government and Provincial Councils presently, the Ministry of Provincial Council and Local Government is the Executing Agency and the Uva, Eastern and Northern Provincial Councils are the Implementing Agencies of the Project. The objective of the Project is to improve access to socio – economic centres in the Uva, Eastern and Northern Provinces through the sustainable management of improved road infrastructure. As per the Project Appraisal Document, the estimated total cost of the Project for Project Coordinating Unit is US\$ 3.8 million equivalent to Rs. 475 million and the total amount was agreed to be financed by the International Development Association. The Project commenced its activities on 31 March 2010 and scheduled to be completed by 31 March 2015. However, the activities of the Project had been continued up to 15 October 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 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. Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in 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 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,
- (c) 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,
- (d) Whether the opening and closing balances and 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 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether 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.
- (f) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (g) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.

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

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period ended 15 October 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 15 October 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and 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 balance as 15 October 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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) the 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.

2.2 Comments on Financial Statements

2.2.1. Non - Compliance with Laws, Rules and Regulations

The Project had paid allowances for incidental expenses amounting to US\$ 50 per day for 10 officers each who visited to China during the period under review eventhough allowances of US\$ 30 per day is eligible as stipulated by the Circular No MOFP 01/2010/01 of 10 October 2010 of Ministry of Finance and Planning. Therefore, a sum of Rs 224,000 had been spent by the Project additionally. Further, the reports are required to be furnished within 07 days of returning to the island after the foreign visits had not been presented even as at 15 October 2015.

2.2.2. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the period under review and the utilization of funds during the period under review and up to 15 October 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the period under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA	3.80	475	46	0.25	33.30	2.65	332.04
GOSL	-	-	-	-	8.20	-	9.53
Total	<u>3.80</u>	<u>475</u>	<u>46</u>	<u>0.25</u>	<u>41.50</u>	<u>2.65</u>	<u>341.57</u>

According to the above information, out of the total allocation of US\$ 3.8 million equivalent to Rs.475 million made in the Loan Agreement only US\$ 2.65 million equivalent to Rs.334.2 million had been utilized at the end of the period of the Project.

3.2 Physical Progress

The Project Coordinating Unit of the Project was responsible to coordinate Project Implementing Units in Uva, Northern and Eastern Provinces involved in implementing of the activities of the Project with the Lending Agency. Therefore, the support services such as procurements, supervision consultation and technical assistance on 06 construction works and social and environmental matters thereon engaged by the Project Implementing Units had been completed by the Project Coordinating Unit.

3.3 Matters in Contentious Nature

A delegation of officers of the Line Ministry had made a study tour to China at the end of March 2015 and a sum of Rs 12.95 million for course fees, subsistence and airfare etc. had been spent by the Project. Eventhough it was indicated that the tour was organized by an Institute in Thailand through a local agent, the respective Institute had informed directly to the auditors that there was neither involvement of the said Institute on this study tour and nor local agents had been appointed thereon. According to the information made available, a sum of Rs.6.73 million had been paid on 31 January and 31 March 2015, as course fees to a person who submitted a forged document to the Project to prove the relationship with the institute as the local agent.

3.4 Issues on Financial Controls

The financial controls on cash advance granted to the staff of the Project were not satisfactorily implemented by the Project Monitoring Unit. Eventhough the advances are required to be settled immediately after the completion of the intended purposes in terms of Financial Regulation 371 (a), cash advances aggregating Rs 460,000 obtained by 03 officers in 17 occasions had been settled with delays ranging from 22 days to 188 days. Out of that, full advances of Rs.10,000 and Rs.40,000 had been settled with delay in 22 days and 61 days respectively without utilizing for the intended purposes.

3.5 Closure of the Activities of the Project

The operations of the Project had been closed as at 15 October 2015 and action had been taken by the Project to hand over the assets procured at a cost of Rs 25.96 million to the Provincial Road Authorities time to time. However, no documentary evidence had been received to audit to confirm the assets taken over by the respective agencies. Further, the Implementing Agency had not taken action to wind up the accounts of the Project and presented the financial statements accordingly.