

LANDSLIDE DISASTER PROTECTION PROJECT OF THE NATIONAL ROAD NETWORK PROJECT - 2013

The audit of financial statements of the Landslide Disaster Protection Project of the National Road Network Project for the first accounting period 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.SL-P 109 dated 14 March 2013 entered into between the Government of the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Executing and Implementing Agencies of the Project are then Ministry of Highways Ports and Shipping presently, Ministry of Highways, Higher Education and Investment Promotions and Road Development Authority (RDA) respectively. The objective of the Project is to mitigate landslide disaster targeting for A-class national roads as basic infrastructure by implementing appropriate countermeasures in highland areas in Central, Uva and Sabaragamuwa Provinces, thereby contributing to the economic and social development and enhance the security of the road network and safeguard the lives of people including road users and residents.

The proceeds of the Loan are available to carry out the works of,

- (i) Countermeasures for road disaster management model,
- (ii) Countermeasures for high priority areas of national roads for disaster management and other related facilities,
- (iii) Establishment of Early Warning System for disaster management purposes and ,
- (iv) Providing consulting services.

According to the Loan Agreements, the estimated total cost of the Project is Rs.14,754 million and out of that, Japan Yen 7,619 million equivalent to Rs.11,423 million was agreed to be financed by the Japan International Cooperation Agency. The activities of the Project is scheduled to be completed by 31 March 2019.

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.

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 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 of financial statement. 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 the funds, materials and equipment supplied under Loan had been utilized for the purposes of the Project.
- d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- e) 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 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the first accounting period under review amounted to Rs. 12,000,838. The following statement shows a summary of the expenditure for the period under review.

<u>Item of Expenditure</u>	<u>Expenditure for the period ended 31 December 2013</u> <u>Rs.</u>
Fixed Assets	3,025,957
Work- in -Progress	8,950,206
Current Assets	24,675

	12,000,838
	=====

4.2 Imprest Fund Account

According to the information made available, an Imprest Fund Account had not been operated during the year under review.

5. Audit Observations

5.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

A Register of Fixed Assets had not been maintained by the Project in terms of the provisions made in the Treasury Circular No.842 dated 19 December 1978 and the Treasury Circular No.1A1/2002/02 dated 28 November 2002.

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 provisions and the utilization of funds of the Project during the period under review and the position as at 31 December 2013 are shown below.

Source	Amount agreed to be provided in the Loan Agreement		Budgetary Provision for the year 2013	Funds Utilized During the Period under review	Funds Utilized Up to 31 December 2013
-----	-----	-----	-----	-----	-----
	Japan Yen million	Rs. million	Rs. million	Rs. million	Rs. million
JICA	7,619	11,423	500	-	
GOSL	-	3,331	100	10.8	10.8
	-----	-----	-----	-----	-----
Total	7,619	14,754	600	*10.8	10.8
	=====	=====	=====	=====	=====

*This amount differed from the amount shown in the paragraph 4.1 of this report due to exclusion of payables.

6.2 Physical Performance

Eventhough the Loan Agreement had been entered between Democratic Socialist Republic of Sri Lanka and Japan International Cooperation Agency on 14 March 2013 and the Project Monitoring Unit had been operated since October 2012, action had not been taken to initiate the activities of the Project during the period under review.