

## **Provincial Roads Project – (Eastern Province) - 2014**

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The audit of financial statements of the Provincial Roads Project – (Eastern Province) 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 4.09(b) of the Financing Agreement No. 4630 LK dated 11 January 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Financing Agreement of the Provincial Roads Project, Eastern Provincial Council is the Implementing Agency and then Ministry of Local Government and Provincial Councils presently, Ministry of Provincial Councils and Regional Development is the Executing Agency of the Project. The main objective of the Project is to improve access to socio-economic centers in the Eastern Province through the sustainable management of improved road infrastructure. As per the Project Appraisal Document, the estimated total cost of the Project is US\$ 20 million equivalent to Rs.2,000 and the total amount was agreed to be financed by the International Development Association. The Project commenced its activities on 31 March 2010 and was scheduled to be completed by 31 March 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. 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 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 withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement,
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Financing 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report I am of the 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (d) 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 Financing Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiency**

According to the direction made by the Adjudicator on dispute arisen between the Project and the contractor with regard to rates applied for making payment for construction of two bridges of Malwatta-Surippodai Road, a sum of Rs. 40,042,967 is required to be paid by the Project. However, this contingency liability had not been disclosed in the financial statements.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

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

Source	Amount agreed to be financed according to the Financing Agreement		Allocation made in the Budget Estimate	Amount utilized			
	US\$ million	Rs million		US\$ Million	Rs million	US\$ million	Rs million
IDA	20	2,000	450.00	3.37	438.20	17.87	2,323.20
GOSL	-	-	32.50	0.02	12.30	0.02	10.04
<b>Total</b>	<b><u>20</u></b>	<b><u>2,000</u></b>	<b><u>482.50</u></b>	<b><u>3.39</u></b>	<b><u>450.50</u></b>	<b><u>17.89</u></b>	<b><u>2,333.24</u></b>

### 3.2 Physical Progress

The Project had awarded contracts to rehabilitate 11 provincial roads with the total length of 56.35 kilometres in Eastern Province under 06 packages and out of that 10 provincial roads under 05 packages with the length of 56.15 had been completed and taken over by the Project by 31 December 2014. According to the Letter dated 19 November 2014, the World Bank had informed to terminate rehabilitation works of road under Package EP-08 due to time constrain. However, the Project had awarded contracts to rehabilitate 03 roads on 12 November 2014 under Package EP-08 at a total estimated cost of Rs.143,442,060.

### 3.3 Contract Administration

The following observations are made.

- (a) It was observed that the road safety and social safeguard requirements such as road marking, sign boards, fixing cover slabs over drains and painting of lamp posts etc in 10 provincial roads rehabilitated under 05 packages had not been completed by the contractors. Further, rehabilitation works of 600 metres of Nanthavur Road at an estimated cost of Rs.15,000,000 had not been completed. However, the Engineers had certified that the entire rehabilitation works of all roads completed satisfactorily.
- (b) According to the paragraph 3.8 of the General Condition of the Consultancy Agreement entered into with a foreign firm, the report to be submitted at the end of the consultancy contract had not been submitted by the Consultant even as at 31 May 2015, though the contract period was ended on 30 November 2014.