

Northern Road Connectivity Project, Additional Funding - Provincial Component -from 01 July 2013 to 31 December 2013.

The audit of financial statements of the Northern Road Connectivity Project - Additional Funding - Provincial Component for the first Accounting Period ended 01 July 2013 to 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 read in conjunction with Section 4.04 of Article (iv) of the Loan Agreement No. 2890-SRI(SF) dated 19 November 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Northern Road Connectivity Project – Additional Funding – Provincial Component, the Provincial Road Development Department of Northern Provincial Council and the Provincial Road Development Authority of North Central Provincial Council are the Implementing Agencies and the Ministry of Local Government and Provincial Councils is the Executing Agency of the Project. The objective of the Project is to improve road connectivity within the Northern Province and between the Northern Region and the Southern Region of Sri Lanka. The Project shall comprise:

Part B. Rehabilitation and Replacement

Rehabilitation of about 50 Kilometers of provincial roads and rehabilitation and/or replacement of selected bridges in the Northern Province.

Part C. Rehabilitation and Replacement

Rehabilitation of about 70 Kilometers of provincial roads and rehabilitation and/or replacement of selected bridges in the North Central Province.

According to the Project Administration Manual, the estimated total cost of the Project is US\$ 33.67 million and out of that US\$ 28.9 million was agreed to be financed by the Asian Development Bank (ADB). A sum of US\$ 4.77 million will be provided by the

Government of Sri Lanka for the Taxes and Duties of the Project. The Project commenced its activities on 01 July 2013 and is scheduled to be completed by 30 December 2017.

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. 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 a 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 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 the 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 financial covenants laid down in the Loan Agreement had been complied with.

3. 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 first Accounting Period 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, and
- (c) 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 first accounting period from 01 July to 31 December 2013 amounted to Rs. 154,104,294. A summary of the expenditure as at 31 December 2013 is given bellow.

Item of expenditure	Expenditure for the first Accounting Period from 01 July to 31 December 2013
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	Rs.
Civil Works	152,944,920
Project Management Cost	1,159,374

	154,104,294
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4.2 Imprest Fund Account

According to the financial statements and information made available, there are no operations of the Imprest Fund Account during the first accounting period from 01 July to 31 December 2013.

5. Audit Observations

5.1. Non - Compliance with Laws, Rules, Regulations, etc.

The following observations are made.

- (a) The Pay As You Earn Tax had not been recovered from its salaries of 04 officers employed at the Project Implementation Unit of the North Central province in terms of the Inland Revenue Department Circular No SEC/2013/07 dated 01 September 2013.

- (b) According to Section 8.10.2 of the Government Procurement Guideline, the publication of information relating to the contract awards at least in one widely circulated national newspaper and the Government Gazette is mandatory for contracts which exceed Rs. 250,000,000 in value. However, the Project had not followed above procedure on the contracts awarded.

5.2. Funds Utilization

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and cumulative budgetary allocation and actual funds utilization as at 31 December 2013 are shown below.

	Estimated Total Cost of the Project		Budgetary Provision for the year 2013	Funds Utilized during the year 2013		Cumulative Funds Utilization up to 31 December 2013	
	US\$ Mn.	Rs. Mn	Rs. Mn	US \$	Rs. Mn	US\$ Mn.	Rs. Mn
ADB	28.90	3,641.40	142	1.080	136.1	1.080	136.1
GOSL	4.77	601.02	8	0.063	7.9	0.063	7.9
Total	33.67	4,242.42	150	1.143	144.0	1.143	144.0

5.3 Physical Performance

- (a) According to the Loan Agreement, 07 roads with the length of 51.71 Kilometers in the Northern Province and 07 roads with the length of 75.65 Kilometers in the North Central Province were expected to be rehabilitated during the period of the Project. According to the overall Project Implementation Plan, the all civil works are required to be commenced by selecting suitable Contractors and the Consultants should be appointed to monitor the works before 31 December 2013. However neither the selection of Contractors nor the appointment of Consultants had been done by the Northern Province even as at 31 December 2013.
- (b) According to the Bill of Quantities, the road sign boards with the information relating to the rehabilitation works are required to be fixed at the starting and

closing points of the roads selected for rehabilitation works. It was observed at the physical inspection, such sign boards had not been fixed in five roads even as at 24 August 2014.

- (c) According to Schedule 5 of Loan Agreement, Project should develop a Website to disclose information relating to the Project activities including procurement within 3 months of loan effective date. However, such a website had not been developed even up to September 2014.