

Provincial Roads Project – (Eastern Province) - 2013.

The audit of financial statements of the Provincial Roads Project – (Eastern Province) for the year 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 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 (GOSL) and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Provincial Roads Project, Eastern Provincial Council is the implementing agency and the Ministry of Local Government and Provincial Councils 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 of the Recipient through the sustainable management of improved road infrastructure. As per the Project Appraisal Document, the estimated total cost of the Project – (Eastern Province) is US\$ 20 million and the total amount was agreed to be financed by the International Development Association (IDA). 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. 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 Credit etc.

- (c) Whether withdrawals under the Credit had been made in accordance with the specifications laid down in the Financing Agreement.
- (d) Whether the funds, materials and equipment supplied under the Credit 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 the opening and closing balances, 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 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (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.

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 to the Paragraph 5.2 of this report, I am of the 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,
- (c) the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 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 Financing Agreement,
- (e) 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 Financing Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available for audit, the project expenditure for the year under review amounted to Rs. 1,076,744,254 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 1,853,570,991. The following statement shows a summary of the expenditure for the year under review, the

expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

Item of Expenditure -----	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013 -----
	<u>2013</u> Rs.	<u>2012</u> Rs.	
Civil Works	884,669,580	445,332,808	1,546,905,413
Furniture and Fittings	34,740	-	885,440
Office Equipment	267,520	2,290,312	3,054,448
Consultancy Services	169,503,237	57,980,410	268,657,783
Incremental and Operating Cost	22,269,177	11,250,537	34,067,907
Total	1,076,744,254	516,854,067	1,853,570,991
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4.2 Special (Dollar) Accounts -----

According to the financial statements and information made available, the operations of the Special (Dollar) Account of the Project during the year under review are summarized below.

	US \$		Rs.	
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Balance as at 01 January 2013	1,172,530		149,099,855	
<u>Add: Replenishments</u>	7,515,059		957,895,614	
Foreign Exchange Gain	-		13,603,946	
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	8,687,589		1,120,599,415	
<u>Less: Withdrawals (FA)</u>	8,135,551	1,048,531,310		
Withdrawals (RFA)	<u>98,908</u>	8,234,459	<u>12,820,039</u>	1,061,351,349

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Balance as at 31 December	453,130	59,248,066
2013	=====	=====

5. Financial and Physical Performance

5.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review to the Project Implementation Unit, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2013 are shown below.

Source	Amount agreed to be financed as per Financing Agreement		Allocation made in the Annual Budget for 2013	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	USD (Mn)	Rs (Mn)	Rs (Mn)	USD (Mn)	Rs (Mn)	USD (Mn)	Rs (Mn)
IDA	20	2,000	1,090	8.149	1,059.47	14.5	1,885.00
GOSL	-	-	3	-	2.11	-	7.54
Total	20	2,000	1,093	8.149	1,061.58	14.5	1,892.54

* These figures are not agreed with the amounts shown in the section 4.1 of this report due to accounting of accrued expenses.

5.2 Physical Performance

5.2.1 Progress of Construction Works

The Project had awarded contracts under 05 packages to rehabilitate provincial roads with the length of 56.15 in Eastern Province and out of that, rehabilitation works of 04 packages had been substantially completed as at 31 December 2013. However

rehabilitation works of provincial roads under Package -07 had not been completed and physical progress was remained as 13 per cent as at 31 December 2013. Following observations are made on site visits made on rehabilitated under the Project.

(a) Construction of Malwatta-Surippodai Road under Package EP-01

- (i) Even though it was requested by the Consultant to follow snag list while carrying out the construction of shoulders under this Road Package, it was observed at the physical inspection carried out on 28 May 2014 that there were inadequate slope and compaction at both sides of location at Ch 0+000 and Ch 5+160 and there were erosions at intermittent locations. However, action had not been taken to rectify the above mentioned defects.
- (ii) There were moderate localized bleeding in the construction of Double Bituminous Surface Treatment (DBST) at locations such as Ch 0+550-0+575, Ch 0+600, Ch 0+660, Ch 0+710, Ch 0+726 and Ch 0+800-0+810.
- (iii) Asphalt pavement at joint portion should be cut-off and replaced with epoxy mortar and joint sealant at location Ch 4+920 (Bridge) as instructed by the supervision Consultant. However, it had not been carried out accordingly.
- (iv) Although liquidated damages amounting to Rs. 39,789,823 to be recovered as the construction works had delayed by 100 days, sum of Rs. 18,829,229 had only been recovered from the payment of bills up to the date of audit on 28 May 2014.
- (v) Although the contractor should submit two sets of “as built drawings” on 30 October 2013 to the Project after obtaining approval from the

Consultant, the contractor had not submitted such drawings even up to the date of audit on 28 May 2014 even in lapse of seven months period.

- (vi) The Project had subsequently changed the scope of construction of two bridges. As a result, the contractor had claimed a sum of Rs. 2,894,646 as additional charges for changing the scope, and exceeding the period of completion of works. According to the Project Director, the matter was referred for arbitration.

(b) Construction of Roads under Package EP-02

(i) Viliniyadi Road

There were cracks at concrete pavement at locations Ch 0+390, Ch 0+424, Ch 1+150, Ch 1+290 Ch 2+924 and Ch 3+540 and the Consultant had requested the contractor to rectify those cracks by V-cut and filling epoxy mortar. However, it had not been rectified out accordingly. According to the Project Director, the contractor had used “Bar Emulation “to rectify the cracks and remained under observation and monitoring at present.

(ii) Karathivu Road

The following observations are made.

- There were damages of cover aggregate on wheel path at locations Ch 0+300, Ch 0+460, Ch 0+490 Ch 0+740, Ch 0+760 Ch 0+790, Ch 0+805 Ch 0+916, Ch 0+920 and Ch 2+055.
- There were moderate localized bleeding at locations Ch 0+200 and Ch 0+220.

(iii) Nintavur Road

The middle section of the road at the length of 700 metre for which a sum of Rs. 14,928,240 estimated, had not been constructed due to reluctance of the property owners to donate the land strips to relocate the walls of inhabitants. As a result, road had been designed for 4.5 metre width instead of 6 metre width.

- (iv) Although the contractor should submit two sets of “as built drawings” on 21 November 2013 to the Project after obtaining approval from the Consultant, the contractor had submitted such drawings only on 29 April 2014.
- (v) The Project had delayed the payment of bills to the contractor for 227 days. Therefore, the contractor had claimed sum of Rs. 1,583,054 as delay charges.

(c) **Construction of Roads under Package EP-04**

(i) **Damana-Pannalagama-Ambalan Oya Road**

The following defects were observed relating to Double Bituminous Surface Treatment (DBST)

- Crack on surface and dislodging of 10 mm chips at locations Ch 04+360 and Ch 04+375.
 - Surface roughness had existed at several locations.
 - Inadequate of sand seal at locations Ch11+200 and Ch 11+460 both side.
 - Undulation and cavities at locations Ch 21+640 and Ch 21+790
- (ii) Although the contractor should submit two sets of “as built drawings” on 16 October 2013 to the Project after obtaining approval from the Consultant, the contractor had submitted such drawings only on 29 April 2014.
 - (iii) The Project had delayed the payment of bills to the contractor for 101 days. Therefore, the contractor had claimed sum of Rs. 1,764,435 as delayed charges.

(d) Construction of Roads under Package EP-07

The following observations are made.

- (i) Feasibility studies had not been carried out properly for the selection of road as the area is flat and elevation is between 2-3metres at Median Sea Level (MSL) and ground water table is high and largely fluctuates even for small rain. As a result, there were possibility of inundation of drain and it will cause heavy damage to the road.

- (ii) As per original work plan, earth works relating to this road construction should have been commenced on 25 March 2014. However, earth works had not been started even up to 30 April 2014.

6. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Maintenance of Accounting Records
- (b) Contract Administration