

ROAD PROJECT PREPARATORY FACILITY -- 2013.

The audit of financial statements of the Road Project Preparatory Facility 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 4.06(b) of Article iv of the Loan Agreement No. 2080 SRI(SF) dated 16 June 2004 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 Road Project Preparatory Facility, the Road Development Authority (RDA) is the implementing agency of the Project. The objective of the Project is to support the Government of Sri Lanka in deploying its road network efficiently. As per the Loan Agreement, the estimated total cost of the Project is Rs.1,969 million and out of that Rs.1,476.75 million or 75% was agreed to be financed by the ADB. The Project shall provide funding for the borrower and its road agencies to conduct road project preparatory activities including the following:

- i.** Assistance for preparing feasibility studies including environmental and social assessment, and resettlement plans, detailed design and bid documents;
- ii.** Assisting bid evaluation and contract negotiations; and
- iii.** Preparing any concession agreements and negotiations for any Public-Private Partnership (PPP) subprojects.

The Project commenced its activities on 15 September 2004 and was scheduled to be completed by 30 June 2012. Subsequently the Project period had been extended up to 30 June 2014.

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 test 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 purchases made out of the Loan etc.
- (c) Whether the funds, materials and equipment supplied under the 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.
- (f) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund 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.
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit reports, and
- (h) Whether the 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, except for the effects of the adjustments arising from the matters referred to 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,
- (c) Opening and closing balances, withdrawals from and replenishments to the Imprest Fund 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,

- (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) 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year under review amounted to Rs.52,157,908 and the cumulative expenditure as at 31 December 2013 amounted to Rs.1,905,547,014. The following statement shows a summary of the expenditure for the year under review, the expenditure for the previous year and the cumulative expenditure as at 31 December 2013.

Category of expenditure	Expenditure for the year ended		Cumulative expenditure as at 31 December 2013
	31 December		
	2013	2012	
	Rs.	Rs.	Rs.
Equipment:			
Package - II	(1,451,117)*	(1,680,028)	2,251,781
Work-in-progress:			
(Project expenses)			
Package - II	4,085,187	4,372,793	119,425,923
Eastern and North Central Provinces	(35,909)**	(132,547)	6,648,420
Non refundable tender deposits	-	-	(4,591,646)
Consultancy:			

Package - I	-	-	399,531,991
Package - II	-	-	410,811,723
Package I	-	258,100	169,454,270
Package V	143,323	3,020,654	236,668,633
Package roads for additional financing	10,222,426	185,113,251	195,335,677
Individual consultants - “A”	-	-	4,045,039
Individual consultants - “B”	312,667	-	312,667
Assessment of flood damage	-	-	5,106,022
Consultancy services - Katahira & Engineers International	38,881,331	-	38,881,331
Consultancy services - Jaffana	-	4,533,449	91,768,957
Consultancy services - 400 km	-	53,880,514	177,097,420
Procurement consultancy	-	-	14,947,328
Preparatory work - Northern Road Connectivity Project	-	-	902,065
Preparatory work - Conflict Affected Region Emergency Project	-	-	854,701
Interest charges	-	<u>6,672,823</u>	<u>36,094,712</u>
	<u>52,157,908</u>	<u>256,039,009</u>	<u>1,905,547,014</u>

* Due to depreciation of fixed assets and assets transferred to the Ministry of Local Government & Provincial Council (MLG&PC) and RDA.

** Due to adjusted revaluation imprest.

4.2 **Imprest Fund Account**

According to the financial statements and information made available, the operations of the Imprest Fund Account during the year under review and the balance as at 31 December 2013 is given below.

	<u>Imprest Account No. 5930</u>	
	US \$	Rs.
Balance as at 01 January 2013	9,996	1,271,147
Add: Replenishments	Nil	Nil
Foreign exchange gain	-	35,909
	<u>9,996</u>	<u>1,307,056</u>
Less:		
Withdrawals	Nil	Nil
Balance as at 31 December 2013	<u>9,996</u>	<u>1,307,056</u>

5. **Audit Observations**

Following observations are made.

- (i) The Consultant of Southern Highway Extension Towards Colombo (SHETC) Project had not submitted output reports to the client within the time period specified in the General Conditions of Contract No.26.1 (c) of the Agreement.
- (ii) Contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12, dated 02 June 2003, a sum of Rs. 96,589 had been paid to the Road Development Authority as overhead cost.
- (iii) There should be a comprehensive overall plan to cover the entire project period highlighting the anticipated financial and physical targets monthly, quarterly, annually etc., to ensure successful implementation of the Project within the specific project period. However, such a plan had not been prepared and implemented throughout the Project period by the Project office.

(iv) Although an annual action plan had been prepared, the responsibilities of core – staff with targets to be achieved and the budgetary allocations relating to the activities had not been clearly identified. Therefore the progress of the Project as a whole could not be properly evaluated in order to take corrective measures and to make necessary changes with the view to achieve objectives set for. Although the progress of some activities and critical issues had been discussed in the review meetings and Project Coordinating Committee meetings, the performance of the Project had not been properly monitored.

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 budgetary provision for the year under review and utilization of funds during the year under review and up to 31 December 2013 are shown below.

<u>Sources</u>	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary provision for the year 2013</u>	<u>Funds utilized during 2013</u>	<u>Funds utilized up to 31 December 2013</u>	<u>Utilization for the year as a percentage</u>
	<u>US \$.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	
ADB	15	1,476.75	38.72	38.72	1,517.52	100
GOSL	<u>05</u>	<u>492.25</u>	<u>30.00</u>	<u>23.00</u>	<u>383.49</u>	77
	<u>20</u>	<u>1,969.00</u>	<u>68.72</u>	<u>61.72*</u>	<u>1,901.01**</u>	

* This amount differs from the amount shown in the paragraph 4.1 of this report, due to inclusion prepayments amounting to Rs.35,909 and exclusion current liabilities amounting to Rs.9,525,787.

** This amount differs from the amount shown in the paragraph 4.1 of this report, due to inclusion prepayments of Rs.1,509,557, exclusion current liabilities of Rs.4,860,162 and inclusion grant amount of Rs.1,177,592.

6.2 Financial and Physical Performance

The RDA and the Ministry of Local Government and Provincial Councils with the participation of Provincial Road Agencies had identified roads to be rehabilitated and improved to meet the needs of modern and efficient road network.

It was observed that a total length of 2,200 Km of National Highways and 2,900 Km of Provincial roads had been selected for feasibility study and detailed design. However, the contract had been awarded to a contractor at a value of Rs.1,753.43 million for the consultancy service of 3,141 km of National Highways and 3,119 km of Provincial roads. As per the Project progress report, feasibility study and detailed design pertaining to 4,940 Km had been completed by the Project as at 31 December 2013.

Details of physical progress of contracts and cumulative expenditure incurred as at the end of the year under review were as follows.

<u>Package</u>	<u>Awarded</u> <u>contract value</u>	<u>Length of road as per</u> <u>the contract</u>	<u>Actual length of road</u> <u>Completed</u>	<u>Cumulative expenditure as</u> <u>at 31 December 2013</u>
	Rs. Mn	Km	Km	
Package I	475.80	1,500	27 – FS 157 – DD	} 268.7
Package II	362.17	2,400	2,400	410.8
Package 1B	100	351	347	130.8
Package 1C	160	664	664	169.4
Package V & VA	156.19	436	436	158.3
Package VB	70.36	77	77	78.2
Package X - NH	} 170.20	113	113	} 185.1
Package X – Provincial roads		69	69	
Jaffna	91.27	250	250	91.8
Killinochchi/Mullaitivu	<u>167.44</u>	<u>400</u>	<u>400</u>	<u>177.0</u>
	<u>1,753.43</u>	<u>6,260</u>	<u>4,940</u>	<u>1,670.1</u>