

Road Sector Assistance Project – Rural Road Pilot Component - 2013.

The audit of financial statements of the Road Sector Assistance Project – Rural Road Pilot Component 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 4.01(b) of Article IV of the Development Credit Agreement No 4138 CE dated 16 January 2006 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 Development Credit Agreement of the Road Sector Assistance Project, the Ministry of Local Government and Provincial Councils is the Implementing Agency of the Project. The main objectives of the Project are to carrying out a pilot programme in three contracts for Provincial Councils and nine contracts for Pradeshiya Sabhas consisting of the following.

- (a) Strengthening of the rural road management and maintenance system of the Pradeshiya Sabhas.
- (b) Rehabilitation and maintenance of approximately 635 kilometers of rural roads to improve rural roads in accessibility;
- (c) Provision of technical assistant including the strengthening of rural road management and maintenance system of the projects for Pradeshiya Sabhas and contract management and construction supervision;
- (d) Training and institutional strengthening including capacity building for staff of Ministry of Local Government and Provincial Councils, Project staff of the Provincial Councils and Pradeshiya Sabhas, contractors and consultants;
- (e) Undertaking an independent technical audit for Part B of the Project; and

- (f) Provision of necessary goods and equipment required for Part B of the Project.

According to the Development Credit Agreement, the estimated total cost of the Project is US\$ 14 million and the total amount was agreed to be financed by the International Development Association. The Project commenced its activities on 01 May 2006 and was scheduled to be completed by 31 March 2011. Subsequently the Project period had been extended up to September 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 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 Development Credit 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 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 the Statements of Expenditure (S.O.E^s) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Development Credit Agreement.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (j) Whether the financial covenants laid down in the Development Credit 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 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 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 and information made available, the expenditure of the Project during the year ended 31 December 2013 amounted to Rs 36,813,813 and the cumulative expenditure as at 31 December 2013 amounted to Rs 1,641,981,426. 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 is given in the following statement.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013	2012	
	Rs.	Rs	Rs.
Civil Works	8,758,861	13,663,714	1,205,430,909
Goods	23,566,280	-	53,461,281
Consultancy Services	590,000	1,493,000	173,050,422
Training	-	-	8,082,574
Incremental and Administration Cost	3,898,672	11,183,912	201,956,240
	<u>36,813,813</u>	<u>26,340,626</u>	<u>1,641,981,426</u>
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4.2 Special (Dollar) Account

According to the financial statements and information made available, a Special (Dollar) Account (Sub Ledger, Account No. 125) had been opened in the name of the Deputy Secretary to the Treasury in the Central Bank of Sri Lanka (CBSL) for the purpose of the Project (Rural Road Pilot Component). A summary of the operations of the Special (Dollar) Account during the year under review and the balance as at 31 December 2013 is given below.

	US\$	Rs.
Balance as at 01 January 2013	77,747.12	9,886,386
<u>Add</u> Replenishments	292,609.65	37,724,765
Foreign Exchange Gain	-	460,286
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	370,356.77	48,071,437
<u>Less</u> Withdrawals	293,302.28	37,996,331
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Balance as at 31 December 2013	77,054.49	10,075,106
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5. Audit Observations

5.1 Financial Review

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

Sources	Utilization of Funds						Funds Utilized up to 31 December 2013		Utilization up to 31 December 2013 as a percentage of the provision
	Amount agreed for financing in the Loan Agreement		Budgetary Provision for the year 2013		Funds Utilized during the year 2013		US\$	Rs	
	US\$	Rs	US\$	Rs	US\$	Rs	US\$	Rs	
	Mn	Mn	Mn	Mn	Mn	Mn	Mn	.Mn	
World Bank	14.4	1,632	0.08	10	0.28	36.17	14.3	1,622.8	99
GOSL	0.21	25	-	0.5	-	0.63	0.17	19.1	80
Total	14.61	1,657		10.5		36.8	14.47	1,641.9	

5.2 Physical Performance

The following observations are made.

- (a) Even though it was expected to rehabilitate and maintain of 635 kilometres of rural roads under the Project to improve rural road in accessibility, only 160 kilometres of rural roads had been rehabilitated as at 31 December 2013, seven years after the commencement of the activities of the Project.
- (b) The following matters were observed at an audit inspection of the work sites in Rideemaliyadda, Meegahakiula and Siyabalanduwa Pradeshiya Sabha Divisions carried out in May 2014.
 - (i) Six roads 24.1 kilometres long situated in Warapitiya, Alukatiyawa, Dematabedda, Waragama, Senavigama-Tissapura and Muthukandiya villages had been rehabilitated at a cost of Rs. 114.5 million. However, other structures such as culverts, drains and causeways which were essential works for road rehabilitation purposes had not been carried out. Therefore, the road condition was deteriorating at the time of the inspection.

- (ii) Four gravel roads 19.1 kilometres long situated in Warapitiya, Senavigama-Tissapura, Alukatiyawa and Waragama villages rehabilitated at a cost of Rs. 84.6 million was washed off due to heavy rains, after 16 months of rehabilitation. Thus it was observed that the quality of rehabilitation works of such roads had not been carried out satisfactorily.

- (iii) It was observed that the maintenance work of rural roads rehabilitated by the Project had not been carried out regularly to ensure the long term use of such roads. Further, 11 rural roads rehabilitated in Rideemaliyadda, Meegahakiula and Siyabalanduwa Pradeshiya Sabha Divisions at a cost of Rs. 221.8 million had been damaged due to lack of proper maintenance carried out on regular basis.

- (iv) Vehicles and equipments such as concrete mixers, chainsaw, etc purchased at a cost of Rs. 13.8 million for the purpose of road maintenance works had not been used for the intended purposes. Such vehicles and equipment had been allowed for use by third parties on hire basis by Rideemaliyadda, Meegahakiula and Siyabalanduwa Pradeshiya Sabhas.