

Provincial Road Development Project (Central and Sabaragamuwa Provinces) - 2013.

The audit of financial statements of the Provincial Road Development Project (Central and Sabaragamuwa Provinces) 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 of Article III of the Loan Agreement No SL-P 96 dated 26 March 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Provincial Road Development Project (Central and Sabaragamuwa Provinces), the Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project and the Ministry of Local Government and Provincial Councils is the Executing Agency of the Project. The objectives of the Project are enhance connectivity and reliability of the roads network especially for the people in rural areas by rehabilitating and upgrading the provincial roads and also strengthening institutional capacities of road agencies and contractors, and thus contribute to local economic development and reduction of regional disparities. According to the Loan Agreement, the estimated total cost of the Project is JPY 11,171 million and out of that JPY 9,156 million was agreed to be financed by the Japan International Cooperation Agency. The Project commenced its activities on 01 September 2010 and scheduled to be completed by January 2014. Subsequently the project period had been extended up to 25 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 purchases made out of the Loan etc.
- (c) Whether withdrawal 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 the opening and closing balance withdrawals from and replenishment as to the Special (Yen) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balances 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) The statement of expenditure (SOEs) submitted could be fairly relied upon to support the application for reimbursement in accordance with the requirements specified in the loan 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 Loan Agreement had been complied with.

3. Opinion

So far 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 (Yen) 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 for the year ended 31 December 2013 amounted to Rs.3,932,882,960 and the cumulative expenditure as at 31 December 2013 amounted to Rs.6,702,236,433. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2013
	<u>2013</u>	<u>2012</u>	
	Rs.	Rs.	Rs.
Civil Works (Work in Progress)	3,397,652,023	1,868,542,841	5,735,928,233
Plant and Machinery	100,686,719	6,173,000	106,859,718
Furniture and Office Equipment	324,035	205,791	775,745
Consultancy Fees	247,198,043	163,994,441	515,863,800
Commitment Charges and Loan Interest	52,642,795	42,477,891	115,430,405
Administration Cost	134,379,345	44,521,528	227,378,532
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	3,932,882,960	2,125,915,492	6,702,236,433
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4.2 Special (Yen) Account

According to the financial statements and information made available, the operations of the Special (Yen) Account during the year ended 31 December 2013 and the balance there in as at that date given below.

	<u>JPY</u>	<u>Rs</u>
Balance as at 01 January 2013	682,620,358	1,010,209,868
<u>Add:</u> Replenishments	1,918,770,255	2,555,071,382
Foreign Exchange Gain/(Loss)	-	(167,579,308)
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	2,601,390,613	3,397,701,942
<u>Less:</u> Withdrawals	1,934,229,960	2,566,486,484
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Balance as at 31 December 2013	667,160,653	831,215,458
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5. **Audit Observations**

5.1 **Accounting Deficiencies**

Retention money amounting to Rs.330,321,579 deducted from the interim payments made to the contractors engaged in 39 road rehabilitation works had not been recognized as liabilities of the Project. Therefore, the value of Civil work- in –progress and the retention money payable as at 31 December 2013 had been understated by that amount.

6. **Financial and operating Review**

6.1 **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 fund utilization as at 31 December 2013 are shown below.

	Amount agreed for financing as per Loan Agreement		Budgetary Provision for the year 2013	Funds Utilized during the year 2013		Cumulative Budgetary Provision up to 31 December 2013		Utilization up to 31 December 2013 as a percentage of the total fund allocation
	JPY Mn.	Rs. Mn	Rs. Mn	JPY Mn.	Rs. Mn	Rs. Mn	Rs. Mn	%
JICA	9,156	11,628	3,004	2,216.38	2,938.26	7,148.0	5,296.78	46
GOSL	2,015	2,559	478	233.79	309.93	986.8	616.36	24
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	11,171	14,187	3,482	2450.17	3,248.19	8,134.8	5,913.14	42
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It was observed that out of total fund allocation, 42 per cent of funds had only been utilized, after elapse of 75 per cent of Project period as at 31 December 2013.

6.2 Physical Performance

Following observations are made.

- According to the information received 08 roads with a length of 75.40 km in Central Province and 06 roads with a length of 75 km in Sabaragamuwa Province expected to rehabilitate under the Phase -01 of the Project were required to be completed by 31 December 2013. However, the physical progress of the rehabilitation works of such roads were ranging from 56 per cent to 96 per cent at that date. Out of that, the rehabilitation works of Bogahawatte- Maldeniya-Handunawa road (CP1NE1) in Central Province and Utuwankande- Ussapitiya Road (SG1KG3) in Sabaragamuwa Province had shown slow progresses of 56 per cent and 58 per cent respectively.
- Further, it was expected to rehabilitate 07 roads with a length of 77.6 kilometers in the Central Province and 13 roads with a length of 91.8 kilometers in Sabaragamuwa Province expected under the Phase -02 of the Project and required to be completed by 30 June 2014. However, the physical progress of the rehabilitation works of such roads were ranging from 21 per cent to 82 per cent as at 31 December 2013. The rehabilitation works of Ankelipitita -Udawela- Ampitiya road (CP2KD 7/8/9) and Deltota- Bopitiya road (CP2KD103) in Central Province had shown below 30 per cent of physical progress and Muwagama-Niragama-Alupotha-Yakdehiwatte

(SG2RP2-A) and Kotamulla- Karangoda- Dimitiyawa road (SG2RP3B) in Sabaragamuwa Province had shown slow progresses of 24 per cent and 21 per cent respectively as at 31 December 2013, thus indicating that the rehabilitation works of respective roads would not be completed on scheduled dates.

(c) The Project had implemented rehabilitation works of 19 roads of 146.8 kilometers in Sabaragamuwa Province under 17 packages. The inspections made during the physical observations carried out in August 2014 are given below

- (i) The construction works of the bridge at 2+325 kilometers of Kotamulla- Dimiyawa Road (SG2RP3-B) had been abandoned since July 2014 due to failure of the contractor. It was observed at the physical observation that the vehicle movement by this bridge remained unsafe due to wash off of the road sides.
- (ii) The contractor engaged on rehabilitation works of Aranayake- Ambalakanda Road had not adhered with a proper environmental protection program at the construction sites. Therefore the residents in the area complained on dumping of excavated soil, boulders and other road garbage at the road sides and air pollution during the road constructions.
- (iii) The bridge at 12+064 km of Getahetta- Karangoda road (SG2RP4) had been renovated and a water stream was blocked by a heavy concrete bar removed during the renovations left in the stream allowing risk of flood in rainy seasons.

(d) The Project had implemented rehabilitation works of 24 roads of 163.5 kilometers in Central Province under 22 packages. The observations made during the physical inspections carried out in July 2014 are given below.

- (i) The rehabilitation works of the Thanna- Ovitikanga- Dodandeniya road (CP1MT1) and Kaduwela- Wehigala- Leliambe Road (CP1MT2) had been completed substantially on 08 December 2013. However, it was observed at the physical inspections that the road signs had not been installed to ensure comfortable and safety travel by the respective roads. Further, the traveling of first five kilometers of Thanna- Ovitikanga- Dodandeniya Road was not comfortable enough as the shoulders of the roads at the bends were broken due to poor road designing and Asphalt applications.
- (ii) The turf works of first 200 meters of the Ampitiya- Uduwela Road (CP2KD7) had not been satisfactory due to washing off of the turf and blocking the stream.