

Provincial Road Development Project (Central and Sabaragamuwa Provinces) -2014

The audit of financial statements of the Provincial Road Development Project (Central and Sabaragamuwa Provinces) for the year ended 31 December 2014 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 and the Japan International Cooperation Agency.

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), then Ministry of Local Government and Provincial Councils, presently Ministry of Provincial Councils and Regional Development is the Executing Agency of the Project and the Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are enhancing 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. As per the Loan Agreement, the estimated total cost of the Project is Japan Yen 11,171 million and out of that Japan Yen 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 Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures

selected depend on the auditor`s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project`s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project`s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) 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.
- (d) Whether 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) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.

- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) 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.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed to be financed according to the Loan Agreement		Provision made in the Budget Estimate for the year under review	<u>Funds Utilized</u>			
				during the year 2014		as at 31 December 2014	
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	Japan Yen million	Rs. million	Rs. million	Japan Yen million	Rs. million	Japan Yen million	Rs. million
JICA	9,156.00	11,628.00	4,428.70	3,610.64	4,274.52	7,416.46	9,500.90
GOSL	2,015.00	2,559.00	523.00	477.04	519.64	941.03	1,136.00
Total	<u>11,171.00</u>	<u>14,187.00</u>	<u>4,951.70</u>	<u>4,087.68</u>	<u>4,794.16</u>	<u>8,357.49</u>	<u>10,636.90</u>

3.2 Physical Progress

The activities of the Project had been carried out under 02 phases to rehabilitate and upgrade of 300.97 kilometres of the provincial roads in Central and Sabaragamuwa Provinces. The contracts had been offered under 39 packages and out of that contracts for rehabilitation of 261.19 kilometres of such roads under 34 packages had been completed as at 30 June 2015.

The following observations are made.

- (a) The rehabilitation works of 07 roads in Central Province had been completed with delays ranging from 102 days to 547 days and liquidated damages aggregating Rs.83.60 million had been recovered thereon from the contractors.
- (b) The physical progress of rehabilitation of roads in Sabaragamuwa Province under 05 contract packages which were not completed at the end of the period of the Project is shown below.

Road	Length Km	Expected date of completion	Physical Progress as at 30 June 2015
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			%
Mabopitiya Parambe Estate Road	8.20	29 January 2015	98
Ansasigala -Bolagama Paththampitiya Road	9.17	28 November 2014	89
Kotamulla -Karangoda –Dimiyawa Road	7.00	27 April 2014	81
Aranayaka-Ambalakanda-Kellie Road	10.41	17 June 2014	73
Mawela-Welangaha-Rukattana Road	5.00	03 February 2015	46

The following further observations are made.

- (i) Rehabilitation works of Mawela – Welangaha – Rukattana Road in Sabaragamuwa Province had reported a slow progress of 46 per cent as at 30 June 2015 due to poor performance of the contractor. Out of the total advance amounting Rs. 16.21 million made to the contractor, only a sum of Rs. 13.13 million had been recovered at the end of the contract period.
- (ii) In addition to the above, the physical progress of the rehabilitation works of other 04 roads had shown slow progress ranging from 73 per cent to 98 per cent at the date of completion of the period of the Project. This evidenced that rest of rehabilitation works of such roads would have been completed out of the funds provided by the Government of Sri Lanka.
- (c) The Project had procured road maintenance equipments at a cost of Rs. 136.95 million and handed over to the Development Construction Machinery Authority of Sabaragamuwa Provincial Council and Provincial Road Development Authority of Central Provincial Council to continue road maintenance activities of such provinces. However, it was observed at the time of site visit made by the auditors that the maintenance works of the roads rehabilitated by the Project had not been carried out successfully. The Project Director had stated that the road maintenance works could not be carried out during the year under review successfully due to lack of funds provided by the Provincial Councils.

3.3 Matters in Contentious Nature

Although 02 Mobile Cold Asphalt Plants scheduled to be supplied and installed by 12 March 2014 in Sabaragamuwa Province, such plants had been supplied in August 2014, However, action had not been taken to install even up to 30 June 2015 due to lack of a suitable location. It was observed that the supplier had requested from the Project to reimburse a sum of Rs.10.38 million for warehouse charges and interest incurred thereon up to 26 December 2014. Further, such machineries could not be used for the road rehabilitation works carried out during the period of the Project due to late supply.

3.4 Idle/ Under -utilized Assets

The following observations are made.

- (a) It was revealed at the audit inspection that Asphalt Premix Paving Machine procured at a cost of Rs.29.82 million by the Project for the Provincial Road Development Authority of the Central Provincial Council in December 2013 had been used for road works only in 05 occasions up to May 2015.
- (b) Although 08 Tipper Trucks valued at Rs.24.30 million and 08 Double Drum Steel Wheel Rollers valued at Rs.9.95 million procured for the use of 08 Executing Engineer Offices in Sabaragamuwa Province had remained at the premises of Development Construction Machinery Authority of Sabaragamuwa Provincial Council for over 08 months without taking action to distribute to the Executive Engineer Offices for road maintenance works. Further, 15 Plate Compactors and 16 Bush Cutting Machines procured at a cost of Rs.2.94 million in 2014 had remained idle even as at 31 May 2015 at the premises of the Executing Engineer Offices of Sabaragamuwa Province without utilizing for intended purposes.

3.5 Extraneous Transaction

The following observations are made.

- (a) Leave encashment amounting to Rs.131,050 had been paid to two officers of the Project Monitoring Unit, contrary to the Section 5.4 of the Circular No. 33 of 05 April 2007 of the Department of Management Services.
- (b) Surcharges amounting to Rs.134,794 had been paid on delays of settlement of gratuity payment for over 08 months.