

Provincial Roads Project – Project Coordinating Unit (PCU) - 2014

The audit of financial statements of the Provincial Roads Project - Project Coordinating Unit (PCU) Project 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 4.09(b) of the Loan Agreement No.4630 LK dated 11 January 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Agency (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Local Government and Provincial Councils presently, the Ministry of Provincial Council and Regional Development is the Executing Agency and the Uva, Eastern and Northern Provincial Councils are the Implementing Agencies of the Project. The objective of the Project is to improve access to socio – economic centers in the Uva, Eastern and Northern Provinces of the recipient through the sustainable management of improved road infrastructure. As per the Project Appraisal Document, the estimated total cost of the Project for Project Coordinating Unit is US\$ 3.8 million equivalent to Rs. 475 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 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 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 identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of General Accepted Accounting Principles,
- (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 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 Generally Accepted Accounting Principles.
- (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.

2.2 Comments on Financial Statements

2.2.1. Non - Compliance with Laws, Rules and Regulations

The following observations are made.

- (a) According to the Financial Regulation 371(a), advances obtained by the officers should be settled immediately after the completion of the intended purposes. However, advances aggregating Rs.521,800 obtained by 03 officers in 12 occasions had been settled with delays ranging from 25 days to 275 days.
- (b) The Project had paid allowances for incidental expenses amounting to US\$ 50 per day for 9 officers each who visited abroad for training programme in 04 instances during the year under review eventhough allowances of US\$ 30 per day is prescribed by the Circular No MOFP 01/2010/01 of Ministry of Finance and Planning of 10 October 2010. Therefore, a sum of Rs 140,476 had been paid contrary to the circular instructions.
- (c) In terms of paragraph 8.1 of the Circular No 33 of 05 April 2007 of Department of Management Services, officers of the Project are allowed to visit abroad for only one short term training during the period of service of

the Project. However, 10 officers of the Project had participated for foreign trainings in several time and spent a sum of Rs.14,957,017 thereon during the period of their services.

- (d) The reports to be furnished within 07 days of returning to the island after the foreign visits as required by the Circular No. CA/P/P/A/1/1/16/1 of 09 July 2012 of Ministry of Finance and Planning had not been presented even as at 31 December 2014 by 37 officers who visited abroad using funds amounting to Rs.22,752,896 provided by the Project, since the inception of the Project activities.

3. Financial and Physical Performance

3.1 Utilization of Funds

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 up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Fund allocated in the Budget Estimate for the year 2014	<u>Funds utilized</u>			
				during the year 2014		up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	3.8	475	80	0.54	71.1	2.4	300.9
Total	<u>3.8</u>	<u>475</u>	<u>80</u>	<u>0.54</u>	<u>71.1</u>	<u>2.4</u>	<u>300.9</u>

3.2 Physical Performance

The Project Coordinating Unit is responsible for the coordination of the Lending Agency and the officers of other 03 Provinces who involved in the implementation of other component of the Project. In addition, the activities on providing consultancy and technical assistance and procurements of major items of fixed assets are carried out by the Project Coordinating Unit However, an Action Plan for the Project Coordinating Unit for the year under review had not been prepared.

3.3 Contract Administration

It was observed that the second lowest bid of Rs.8,625,432 had been selected, out of 06 bids received to procure Asphalt testing equipment without valid reasons to reject lowest bid of Rs.6,729,184. Further, same supplier had been selected to procure soil testing equipment based on third lowest bid amounting to Rs.12,392,800, out of 07 bids without valid reasons for rejection of second lowest bid of Rs.12,266,257.

3.4 Underutilized Assets

A holiday bungalow had been hired by the Project through the contractor who engaged in rehabilitation works of Hulandawa Left - Kahambana Road at a monthly rental of Rs.140,400 since January 2014. However, it was observed that the facility provided by the Project was not used by the officers of the Project who visited Badulla area and made claims for lodgings at other locations.

3.5 Extraneous Activities

It was observed that sums of Rs 300,000 and Rs.267,233 spent during the year under review in connection with production of a video and Deyata Kirula Exhibition respectively were not directly related to achieve the objectives of the Project.