

Northern Road Connectivity Project – Provincial Component - 2015

The audit of financial statements of the Northern Road Connectivity Project – Provincial Component for the year ended 31 December 2015 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 4.03 of Article (iv) of Loan Agreement No. 2640-SRI(SF) dated 27 August 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Provincial Councils and Regional Development, presently Ministry of Provincial Councils and Local Government is the Executing Agency and the Provincial Road Development Department of Northern Provincial Council is the Implementing Agency of the Project. The objective of the Project is to improve connectivity within the Northern Province and between the Northern Province and the southern region of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project amounted US\$ 27.16 million equivalent to Rs 3,530.80 million and out of that US\$ 24.40 million equivalent to Rs 3,172 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 22 October 2010 and scheduled to be completed by 30 June 2015. Subsequently, the period of the Project was extended upto 30 June 2016.

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 Public Sector Accounting Standard 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 Auditors '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 include 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 relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project 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 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 opening and closing balances and 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 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (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 Public Sector Accounting Standard.
- (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.

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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Public Sector Accounting Standard,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and 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 2015 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) the 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.

2.2 Comments on Financial Statements

2.2.1 Non - Compliance with Laws, Rules and Regulations

The contracts on rehabilitation works of Veppankulam- Periyamurippu Road had been awarded to 02 contractors under 03 packages at an estimated cost of Rs 499.04 million without adopting open competitive bidding procedure and exceeding authority limits stipulated in the paragraph 2.14.1 of the Government Procurement Guidelines.

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 2015 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the year review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	24.40	3,172.00	397.00	2.31	300.36	18.33	2,383.33
GOSL	2.76	358.80	49.61	0.28	36.89	2.15	279.36
Total	<u>27.16</u>	<u>3,530.80</u>	<u>446.61</u>	<u>2.59</u>	<u>337.25</u>	<u>20.48</u>	<u>2,662.69</u>

According to the above information, out of allocation of US\$ 24.40 million made in the Loan Agreement, only US\$ 18.33 million had been utilized even after 05 years of the operations of the activities of the Project. Therefore, possibility of utilization of balance amount of allocation of US\$ 6.07 million during the period up to the closure of the activities of the Project as at 30 June 2016 is remained doubtful.

3.2 Physical Progress

According to the information made available, contracts for rehabilitation works of 23 provincial roads with the length of 147.65 kilometres had been awarded by the Project under 06 contract packages. Out of that the rehabilitation works of 21 provincial roads with the length of 109.29 kilometres had been completed even as at 31 December 2014. The contracts which awarded to rehabilitate Veppankulam- Periyamurippu Road with a length of 26.96 kilometres had been terminated and re-awarded in 2014 and expected to be completed on 31 July 2016, even after the end of the period of the Project.

3.3 Contract Administration

The following observations are made.

- As mentioned above, the contract awarded at a cost of Rs. 368.95 million to rehabilitate Veppankulam- Periyamurippu Road in Vavuniya district had been terminated due to disputes on scope variations of the contract. However, the contract had been re-awarded to complete balance works at a cost of Rs.499.04 million to another 02 contractors.
- It was observed that the original estimate of Rs.317.33 million for rehabilitation works of Puthoor- Palamoddai Road and Mankulam- Muruthamadu Road had been reduced subsequently upto Rs.249.20 million due to changes of the scope of the rehabilitation works of the respective roads. As a result, the opportunities for additional financial benefits were allowed to the contractors on granting mobilization advances at an over estimated cost of rehabilitation works.