

Northern Road Rehabilitation Project for rehabilitation of Oddusudan- Nedunkerny Road and Mullaitivu-Puliyankulam - 2014.

The audit of financial statements of the Northern Road Rehabilitation Project for rehabilitation of Oddusudan- Nedunkerny Road and Mullaitivu-Puliyankulam Road 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. This Project is implemented as per the Loan Agreement No.BLA 201006 dated 09 September 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Export-Import Bank of China.

1.2 Implementation, Objective, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Highways and Investment Promotion presently, the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The Road Development Authority is responsible for the management and coordination of Project activities at the National level. The objective of the Project is to rehabilitate and improve of 52.6 kilometres of Oddusudan-Nedunkerny Road and Mullaitivu-Puliyankulam Road. As per the Loan Agreement, the contract value of the Project is US\$ 50.01 million and out of that US\$ 42.51 million or 85 per cent was agreed to be financed by the Export-Import Bank of China. The preliminary works of the Project was commenced on 01 December 2010 and scheduled to be completed by 14 February 2014. The construction works had been completed on 27 June 2014 and the rehabilitated sections of the roads were handed over to the Road Development Authority.

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. 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 and 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 controls 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 Loan etc.
- (c) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (e) Whether the financial statements had been prepared in accordance with Sri Lanka Accounting Standards.
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (g) Whether financial covenants laid down in the Loan Agreement had been complied with

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, 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 purpose for which they were provided,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and;
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

2.1. Comments of Financial Statements

2.2.1 Non - Compliance with Laws, Rules and Regulations

A sum of Rs 635,169 had been remitted by the Project as a recovery of overhead costs of the Road Development Authority, contrary to the Section 8.3.9 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises. Further, the bonus and medical allowance of Rs. 87,841 had been paid to the staff of the Road Development Authority attached to the Project which was not permitted in terms of the Section 8.6 of the said Circular. Eventhough the above instances of non – compliance were highlighted in my previous audit reports, such practices were continued even during the year under review without taking remedial actions.

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 according to the Loan Agreement		Funds utilized			
	US\$ million	Rs. million	during the year 2014	up to 31 December 2014	US\$ million	Rs. million
Import- Export Bank of China	42.51	5,082.69	10.47	1,370.41	42.51	5,323.99
GOSL	7.50	1,048.19	0.15	19.73	7.52	980.39
	50.01	6,130.88	10.62	1,390.14	50.03	6,304.38

3.2 Physical Progress

The rehabilitation and improvement works of 52.6 kilometres of Mullaitivu-Pulliyankulam Road and Oddusuddan-Nedunkerny Road commenced on 15 August 2011 had been completed and handed over to the Road Development Authority on 27 June 2013. However, it was revealed at the site visits that the reconstruction works of 39 culverts of Oddusuddan-Nedunkerny Road had not been made and 156 of guard stones thereon had not been fixed even as at 31 December 2014.

3.3 Contract Administration

The following observations made in this regard.

- (a) As per Clause 14.9 of the General Conditions of the contract, the retention money shall be certified by the Engineer for payment to the contractor, after the expiry date of the defect liability period. However, the Project had released a portion of retention money amounting to Rs.143.53 million during the year under review by accepting a bank guarantee before the date of completion of defect liability period on 27 June 2014.

- (b) According to the provisions made by the contract agreements, the assets procured and used by the civil contractors or Consultants out of funds provided by the Projects are required to be considered as the assets of the Project. However, the value of assets such as vehicles, equipment, furniture etc., procured by the contractors, out of Loan proceeds had not been recognized separately and brought to the records of the Project.

3.4 Transaction in Contentious Nature

The following observations made in this regard.

- (a) It was observed that the Project had carried out the rehabilitation works of 5.5 kilometres of Trincomalee - Pulmoddai Road and 9.3 kilometres of Parakkiramapura – Padaviya Road in the Eastern Province which were damaged due to floods and spent sums of Rs.71 million and Rs.289 million respectively. In addition, rehabilitation works of the other roads in Pudukudiyiruppu resettlement area had also been rehabilitated at a cost of Rs.581 million . It was observed that the above works were not included in the original scope of the works of the Project.
- (b) A sum of Rs.2,517.25 million had been allocated under the Item 04 of the Bill of Quantities for the rehabilitation works of road pavements of Oddusudan- Nedunkerny Road and Mullaitivu-Puliyankulam Road with the length of 52.6 kilometres. However, according to the Interim Payment Certificates presented up to 13 February 2014, a sum of Rs. 734.81 million only had been spent thereon. Thus evidenced that the Bill of Quantities had not been prepared realistically and overpayments of mobilization advances had been made, based on overstated Bill of Quantities.
- (c) According to the financial statements presented, the Project had obtained a Special Loan of Rs.4.49 million from the Road Development Authority, eventhough the rehabilitation works of the roads had been completed as at 27 June 2014.