

Road Network Improvement Priority Road Project- 1 2014

The audit of financial statements of the Road Network Improvement Priority Road Project-1 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 Article 154(1) of Loan Agreement No.4500402212010110492 dated 16 December 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the China Development Bank Corporation.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Road Network Improvement Priority Road Project-1, then Ministry of Highways Ports and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are the improvement and rehabilitation of priority roads as contemplated under the construction contracts. As per the Loan Agreement, the estimated total cost of the Project was US\$ 169.8 million equivalent to Rs.18,864 million and out of that US\$ 152.8 million equivalent to Rs.16,976 million was agreed to be provided by the China Development Bank Corporation. The Project commenced its activities on 29 December 2010 and scheduled to be completed by 29 December 2013. However, the period of the Project had been extended up to 31 December 2014.

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 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 judgement, 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 the 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 funds, materials and equipments 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 Sri Lanka Public Sector Accounting Standards.
- g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) 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 Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes 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.

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 for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million	Rs. million	during the year under review		as at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
CDB	152.8	16,976	4,315.68	27.29	3,563.56	139.65	17,025.17
GOSL	17.0	1,888	385.93	-	385.93	-	2,368.95
	<u>169.8</u>	<u>18,864</u>	<u>4,701.61</u>	<u>27.29</u>	<u>3,949.49</u>	<u>139.65</u>	<u>19,394.12</u>

3.2 Physical Progress

According to the progress reports of the Project rehabilitation works of 08 roads in 04 districts and construction works of flyover at Siribopura Junction in Hambantota had been substantially completed as at 31 December 2014.

3.3 Contract Administration

The following observations are made.

- (a) It was revealed at the site visit made by the auditors that the asphalt layering, compacting, prime coating and road markings of the location from 49+ 500 kilometre to 49+570 kilometre and other location from 51+450 kilometre to 51+638 kilometre of the Paranthan - Mullathivu Road were not up to the standard due to inferior quality of material used and road works carried out in rainy seasons.
- (b) According to the Technical Specification No.506.5(i) of the Contract Documents for the asphalt concreting purposes, the density of all samples taken from the compacted surface course shall not be less than 98 per cent of the marshall density. However, compaction of the asphalt concrete at 43 locations of Pelawatta-Thiniyawala-Kankotiyawattha-Morawaka Road were not at the required level. According to the concrete testing report, out of 281 core samples tested to measure the strength of the concrete, 123 core samples were remained up to the standards.

Further, according to the test reports, quality failures of the concrete works of 04 culverts of the Road had also been reported. Eventhough the Resident Engineer had issued instructions to the contractor to take immediate actions to rectify the defects revealed by test reports , evidence were not made available to audit to confirm the action taken by the contractor to rectify the defects.

3.4 Extraneous Activities

The following observations are made.

- (a) Salaries and allowances aggregating Rs. 2.26 million had been paid by the Project during the year under review to a computer operator and a driver who were not directly engaged in the activities of the Project.
- (b) According to the information made available, the construction works of the Paranthan - Mullativu Road had been completed on 21 December 2013. However, 02 variation orders amounting Rs.173.11 million and Rs.37.76 million had been approved and paid by the Project during the year under review. The following matters were observed in this regard.
 - (i) On the request of the Road Development Authority and the Project Director, 17 officers of Road Development Authority had been attached to the Central Engineering and Consultancy Bureau and remunerations aggregating Rs.47.42 million had been paid under a variation order.
 - (ii) In addition, a sum of Rs.9.66 million had also been paid to the officers of the Road Development Authority attached to the Project as salaries and allowances under another variation order without required approvals.
- (c) Due to delays in settlement of the interim payments to the contractors , additional charges amounting to Rs.29.16 million for 6 contracts had been paid in term of the Section 14.8 of the General Condition of the Contracts.
- (d) A computer, computer accessories, office utilities and a digital camera procured by the Project during the year under review at a cost of Rs.810,053 had been allowed to use by the other institutions.

3.5 Human Resources Management

Although the cadre of the Project had been approved by the Department of Management Services, 03 Consultants were recruited beyond the approved cadre and remuneration amounting to Rs.1.62 million had been paid during the year under review. The Terms of Reference of those Consultants had not been submitted to audit and as a result, the contribution of the Consultants to the Project from these Consultants could not be determined in audit.

