

## **Southern Transport Development Project - 2014**

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The audit of financial statements of the Southern Transport Development 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. The Project is implemented under the Loan Agreements No.BLA201011 for Package 1 and No.BLA201012 for Package 2 dated 17 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China.

### **1.2 Implementation, Objective, Funding and Duration of the Project.**

According to the Loan Agreements of the Southern Transport Development Project, then Ministry of Highways and Ports, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to assist the development of the economy of the Southern Province by encouraging growth in industries, tourism, fisheries and agriculture by connecting the access roads to the first access controlled highway of Sri Lanka. As per the Loan Agreements, the estimated total cost of the Project which is 126 kilometres from Kottawa to Godagama is US\$ 661.14 million and out of that US\$ 138.21 million or 20.9 per cent was agreed to be financed by the Export Import Bank of China to construct 30.25 kilometres of the Expressway from Pinnaduwa to Godagama. Details of the overall sources of funds for the construction of the Southern Expressway are shown below.

<b><u>Lending Agency</u></b>	<b><u>Amount Agreed</u></b>	<b><u>Percentage</u></b>
	<b><u>US \$ million</u></b>	<b><u>%</u></b>
Asian Development Bank	186.00	28.13
Japan Bank for International Co-orporation	103.00	15.58
Nordic Development Fund	5.40	0.82
Swedish International Development Association	0.80	0.12
China Exim Bank	138.21	20.90
GOSL	227.73	34.45
Total	<b><u>661.14</u></b>	<b><u>100.00</u></b>

The Section of the Expressway from Kottawa to Pinnaduwa with the length of 95.05 kilometres and Galle Port Access Road of 5 kilometres had been completed and opened to traffic on 27 November 2011. The balance part of the Expressway from Pinnaduwa to Godagama in Matara was opened to traffic on 16 March 2014. Upon completion of the construction of the Expressway, the Road Development Authority had decided to utilize the savings, amounting to Rs. 4,842 million out of the estimated cost of the Expressway to

rehabilitate other 06 local roads with direct and indirect links to the Southern Expressway. This report includes the comments on activities carried out to construct the Section of Expressway from Pinnaduwa to Godagama and rehabilitation works of other 06 roads.

### **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 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 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 Agencies, 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 Loans etc.

- d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- e) Whether the funds, materials and equipment supplied under the Loans 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 Sri Lanka Public Sector Accounting Standards.
- 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 Agreements 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 Agreements had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Non - Compliance with Laws, Rules and Regulations

The Project had called limited quotations for procurement of plaque at 'Nilwala Gate' Monument at the end of the Expressway from 02 local suppliers and awards the contract at a cost of Rs. 4,510,000. However, the approval as per the Section 8.13.4 of the Government Procurement Guideline had not been obtained for additional works done at a cost of Rs. 2,891,337 which represented 64 per cent of the original contract amount.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision in respect of Section of Expressway from Pinnaduwa to Godagama and other 06 roads for the year under review and 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 Agreements		Allocation made in the Budget Estimate for the year 2014	Funds Utilized	
	US\$ million	Rs. million		during the year 2014	up to 31 December 2014
China					
EXIM Bank	138.21	15,895.00	3,100.00	1,994.00	10,617.00
* GOSL	-	2,805.00	200.30	200.30	3,241.00
	<u>138.21</u>	<u>18,700.00</u>	<u>3,300.30</u>	<u>2,194.30</u>	<u>13,858.00</u>

- \* The contribution of the Government of Sri Lanka includes a sum of Rs. 87.65 million spent by the Road Development Authority to meet the expenditure of the Project, out of a Loan obtained from a local Bank.

### 3.2 Physical Performance

The following observations are made.

- (a) The contracts for rehabilitation of the above mentioned 06 roads in the Southern Province had been awarded to the same contractor and expected to be completed

at the end of the year under review. The physical progresses of rehabilitation of such roads as at 31 December 2014 are given below.

<u>Roads</u>	<u>Length kilometres</u>	<u>Physical progress as at 31 December 2014</u> %
Yakkalamulla-Imaduwa Road	6.2	99
Dorape - Hiyare Road	8.7	87
Godagama-Thelijjawila Road	4.5	68
Weligama - Kananke Road	9.6	66
Ahangama - Imaduwa Road	10.0	65
Weligama-Thelijjawila Road	7.7	31

- (b) An action plan should be prepared by the Project based on the comprehensive overall plan which should be clearly identified the responsibilities of the core staff and physical and financial targets to be achieved had not been prepared by the Project for the rehabilitation of the 06 roads.

### **3.3 Contract Administration**

The following observations are made.

- (a) Due to the estimation errors made in the original Bill of Quantities, the estimated cost of the construction of the Section of Expressway from Pinnaduwa to Godagama amounting to Rs.18,700 million had been reduced up to Rs.15,470 million. However, actual expenditure incurred thereon was Rs.13,858 million. Therefore, the total savings of Rs 4,842 million had been utilized to rehabilitate above mentioned 06 roads.
- (b) According to the testing reports, the failures of soil compaction of the roads rehabilitated by the Project had been reported in 169 instances including significant failures in 49 instances of Dorape - Hiyare Road and 45 instances in Weligama - Kananke Road.
- (c) Although the wearing course core-samples density tests of the roads rehabilitated had resulted almost all the time degree of compaction lower than the expected degree of compaction of 98 per cent, actions had not been taken to rectify such failures.

### **3.4 Uneconomic Transaction**

Contract for the fabrication and installation of “Nilwala Gate” Monument at the end of the Expressway awarded at Rs. 4.5 million was expected to be completed within 03 weeks. However, installation works had been completed after 08 weeks and a sum of Rs.825,000 had been recovered as liquidated damage from the contractor. Subsequently, the Chairman of the Road Development Authority had waived off the liquidated damage based on the instructions of the Designer of the Monument.

### **3.5 Extraneous Transaction**

It was observed that a sum of Rs.84.74 million had been spent by the Project for opening ceremony of the road section from Pinnaduwa to Godagama.

### **3.6 Idle / Underutilized Assets**

It was revealed at the site visits that 02 crocodile structures procured at a cost of Rs. 4.19 million expected to be fixed at “Nilwala Gate” in Matara had remained idle at the office of the Project in Udukawa.