

## **Road Sector Assistance Project - 2015**

---

The audit of financial statements of the Road Sector Assistance Project 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 4.01(b)(i) of Article IV of the Development Credit Agreement No.4138-CE dated 16 January 2006 entered into between the Democratic Socialist Republic of Sri Lanka(GOSL) and the International Development Association (IDA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

---

According to the Development Credit Agreement of the Road Sector Assistance Project, then Ministry of Highways and Road Development, 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 objective of the Project is to lower transportation cost through sustainable delivery of an efficient national road system. As per the Development Credit Agreement No.4138-CE the estimated total cost of the Project was SDR 69.10 million equivalent to US\$ 100 million or Rs.10,125 million and the entire amount was agreed to be financed by the International Development Association. Further, an additional allocation of SDR 59.60 million equivalent to US\$ 98.1 million or Rs.11,579 million had been provided under the First Supplementary Development Credit Agreement No.4429-CE dated 23 June 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. Further, the Second Supplementary Development Credit Agreement No.4906-CE had been entered on 15 March 2011 and an additional allocation of SDR 63.6 million equivalent to US\$ 100 million or Rs.11,081 million had been made thereon. Initially, the Project commenced its activities on 16 January 2006 and scheduled to be completed by 31 March 2011. However, the period of Project had been extended up to 30 June 2015 in terms of provisions made in the Second Supplementary Development Credit Agreement. However, the financial statements of the Project for the year ended 31 December 2015 had been prepared and presented for audit.

### **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 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 Loans, etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) 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 Development Credit Agreements,
- (f) Whether the funds, materials and equipments supplied under the Loans 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 Standards,
- (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 Development Credit Agreements 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 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 Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances 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 Development Credit Agreements,
- (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 Development Credit Agreements had been complied with.

**2.2 Comments on Financial Statements**

---

**2.2.1 Accounting Deficiencies**

---

The following accounting deficiencies are observed in audit.

- a) The Property, Plant and Equipment procured by the Project at a cost of Rs.244.23 million and civil works completed at a cost of Rs.154.12 million which were transferred to the Agencies such as Road Development Authority, Line Ministry and Road Maintenance Trust Fund had been continuously shown as the assets of the Project in the financial statements without taking necessary action to adjust the Ledger Accounts.

- b) Advance received from the Road Development Authority under a special loan facility of National Savings Bank amounting to Rs.7.64 million which remained outstanding as at 31 December 2015 had been shown under current liabilities in the financial statements for the year under review.

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

A sum of Rs.588,254 had been paid as incentive allowances for the staff of the Road Development Authority attached to the Project Monitoring Unit of the Project and overhead expenses amounting to Rs.962,749 had been remitted to the Road Development Authority, contrary to the Sections 8.3.9 and 8.6 of the Circular No PED/12 dated 02 June 2003 issued by the Department of Public Enterprises of the General Treasury.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions 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 in the Credit Agreement		Allocation made in the Budget Estimates for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year 2015		up to 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA Loan							
4138 CE	100.00	10,125	-	-	-	68.37	9,709
4429 CE	98.10	11,579	-	-	-	76.84	10,912
4906 CE	100.00	11,081	4,177	7.60	1,210	63.65	9,569
GOSL	-	-	241	1.70	241	49.00	7,012
	<b><u>298.10</u></b>	<b><u>32,785</u></b>	<b><u>4,418</u></b>	<b><u>9.30</u></b>	<b><u>1,451</u></b>	<b><u>257.86</u></b>	<b><u>37,202</u></b>

### 3.2 Physical Progress

Rehabilitation works of 04 sections of Peliyagoda- Puttalm Road and Colombo – Galle – Hambantota Road and construction works of overhead bridge at Panadura town had been completed by the Project under the additional financing arrangement as at 30 June 2015 with delays ranging from 56 days to 359 days from the expected dates of completion.

### **3.3 Contract Administration**

---

The following observations are made.

- (a) According to the bid documents submitted by the contractor engaged in rehabilitation of the road section of Peliyagoda-Ja-ela, discounts of Rs.278.37 million and Rs.250.10 million had been offered by the contractors on packages 03 and 04 respectively under the several conditions. However, the discounts of Rs.40.29 million and Rs.33.36 million respectively could only be claimed by the Project at the end of the period due to lack of understanding on conditions stipulated in the contract agreement and weaknesses of contract administration.
- (b) It was observed that the Bill of Quantities on rehabilitation of national roads had not been prepared realistically after considering all the significant factors relevant to the rehabilitation works including surveys on underground utilities in urban areas. Several items included in the Bill of Quantities had been deleted while introducing of new items and as a result, the additional costs of Rs.1,052 million had to be incurred exceeding the estimated cost on rehabilitation works.
- (c) The Project had imposed charges aggregating Rs.485.4 million on delays in completion of rehabilitation works of the sections of Colombo –Galle – Hambantota Road and Peliyagoda – Puttalam Road. However, the contractors had also claimed prolongation costs aggregating Rs.942.5 million based on the resources remained idle, loss of profit and overhead expenses incurred thereon due to delays in commencement of the road rehabilitation works. Further, the assessment made by the Consultant had mentioned that the delays on completion of works were occurred due to weaknesses of the contractor such as adequate resources not deployed and frequent break downs of machineries etc., However, the Technical Evaluation Committee had decided to waive off the delay charges in lieu of prolongation costs.
- (d) As a result of delays in completion of road rehabilitation works, the period of the consultancy contract had also been extended by 14 months and consultancy fees of US\$ 1.08 million and Rs.251.99 million had also been increased up to US\$ 1.40 million and Rs.412 million.

### **3.4 Extraneous Activities**

---

The following observations are made.

- (a) The Project had taken action to provide training opportunities to 02 officers of the Ministry of Higher Education and Highways for 10 days in November 2015 in United Kingdom and a sum of Rs.2 million spent, out of the allocation made by the Government of Sri Lanka. It was observed that the necessary information relating to the foreign visit to be furnished to the Ministry of Finance as required by the Circular No. MF/01/2015/01 of 15 March 2015 of the Ministry of Finance had not been furnished. However, it was observed in audit that the training was not directly related to the activities of the Project.

- (b) A proper arrangement had not been made to settle the electricity charges and maintenance cost of street lights of roads rehabilitated and the escalator fixed at the overhead bridge in Panadura town. It was observed that the Project had spent electricity charges of Rs 3.46 million for the road section from Peliyagoda to Ja-ela of Peliyagoda –Puttalam Road for the year under review, out of the allocation made by the Government of Sri Lanka. Further, electricity charges of Rs.95,815 of the escalator fixed at the overhead bridge in Panadura town for the months of June and July of the year under review had also been settled by the Project.
- (c) It was observed that the material required for the operations of the Executive Engineer's offices of the Road Development Authority had been procured at a cost of Rs. 14.79 million through the contractors engaged for the rehabilitation works of the respective national roads. Out of that, the material valued at Rs.7.70 million had been procured through variation orders. Further, a stock of PVC pipes procured by the Project and handed over to the Road Development Authority had remained unused at the stores of Road Development Authority in Negombo.
- (d) As a practice, the Project had not taken action to transfer the assets to the Road Development Authority and National Water Supply and Drainage Board, after closing of the road rehabilitation works. As a result, the pipe laying works done by the Project at a cost of Rs.284 million of the sections of the National Roads had not been transferred to the National Water Supply and Drainage Board.
- (e) A sum of Rs.5.55 million had been spent by the Project, out of the allocation made by the Government of Sri Lanka for various ceremonies held during the year under review which was not directly related to the activities of the Project.

### **3.5 Issues related to the disbursement of funds**

---

The following observations are made.

- (a) It was observed that application for withdrawal of US\$ 47,329.56 equivalent of Rs.6.2 million made on 27 January 2015 had not been accepted by the Lending Agency due to lack of adequate information and source documents.
- (b) It was observed that allocations of SDR 8,956,010 under all three Loan Agreements had remained unutilized at the end of the period of the Project and cancelled subsequently by the Lending Agency. Therefore, balances of US\$ 2,303,416.93 equivalent to Rs.322,434,137 remained as at 31 October 2015 had been refunded to the Lending Agency.

### **3.6 Issues on closure of the activities of the Project**

---

The following observations are made.

- (a) Eventhough the activities of the Project had been closed as at 30 June 2015, the Project Completion Report which agreed to be submitted by 30 September 2015 had not been submitted even as at 31 December 2015. It was observed that addition allocation of Rs.2.57 million had been provided for the preparation of the Report.
- (b) Eventhough the activities of the Project had been completed as at 30 June 2015, actions had not been taken by the Project to hand over the assets to the Implementing Agency and wind up the accounts.