

Saudi Funded Road Network Development Project - 2016

The audit of financial statements of the Saudi Funded Road Network Development Project for the year ended 31 December 2016 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 Loan Agreement No. 9/574 dated 30 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Saudi Fund for Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highways 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 objectives of the Project are to rehabilitate and improve the sections of 144 kilometres of 09 roads in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 81.75 million equivalent to Rs.10,628 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be provided by the Saudi Fund for Development. The Project commenced its activities on 03 June 2013 and scheduled to be completed by 31 December 2018.

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 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 Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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 the 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 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 withdrawal applications submitted could be fairly relied upon to support the direct payments in accordance with the requirements specified in the Loan Agreement,

(d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(e) 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 of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
SFD	60.00	7,800	1,900.00	12.61	1,524.38	49.71	6,462.11
GOSL	21.75	2,828	100.00	-	62.13	-	238.69
Total	<u>81.75</u>	<u>10,628</u>	<u>2,000.00</u>	<u>12.61</u>	<u>1,586.51</u>	<u>49.71</u>	<u>6,700.80</u>

3.2 Physical Progress

According to the information made available, the rehabilitation works of the sections of the roads had been completed at end of the year under review under 06 contract packages with delays ranging from 02 to 13 months. Further, it was observed that the additional overhead charges aggregating Rs.66.82 million had been incurred, due delays in completion of works and changes of the scope of the works.

3.3 Contract Administration

The following observations are made.

(a) The Project had taken action to enter into a fresh agreement on 22 April 2016 as directed by Cabinet of Minister at its meeting held on 23 March 2016 to settle the payments aggregating Rs.334.03 million on changes of the scope of works made on rehabilitation works of Alawathugoda - Palapathwela Road without prior approvals and completed on 08 October 2015.

(b) Eventhough the civil works of the Project had been completed, the payments for land acquisition had been delayed and compensations thereon had not been finalized even up to end of June 2017. As a result, a significant amount of interest will have to be paid to the land owners. However, details relating to interest payable and the arrangements made to settle the payments had not been furnished to audit.

3.4 Under-utilized Assets

The road sign boards and steel pedestrian guard fences etc, procured by the contractor at a cost of Rs. 1.69 million for the purpose of rehabilitation of the section from Peliyagoada - Kiribathgoda Road had remained idle at the premises of the Road Development Authority at Gampaha.

3.5 Matters in Contentious Nature

The service of a Consultant engaged in other Donor Funded Projects had been obtained by the Project without an approval of the Department of Management Services and vehicle hire charges amounting to Rs.280,000 paid during the year under review.