

Badulla-Chenkaladi Road Improvement Project - 2016

The audit of financial statements of the Badulla-Chenkaladi Road Improvement 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 the Loan Agreement Nos. 1661P and 10/639 dated 26 June 2015 and 30 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the OPEC Fund for International Development (OFID) and the Saudi Fund for Development (SFD).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, 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 improve the connectivity of Eastern Province with Uva Province and Central Province enabling the improvement of transportation and enhancing the economic activities in the region by rehabilitation of 147 kilometres of the road from Badulla to Chenkaladi of the Peradeniya-Badulla - Chenkaladi Road. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$140 million equivalent to Rs.18,200 million and out of that US\$ 120 million equivalent to Rs. 15,600 million was agreed to be financed jointly by the OPEC Fund for International Development and the Saudi Fund for Development. The rehabilitation works of the road is expected to be completed by March 2019.

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 risk of material misstatements 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 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 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 Agreements.
- (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 Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Land acquisition costs aggregating Rs. 13.51 million incurred by the Project on road rehabilitation works had been shown in the financial statements as surveying costs.

2.2.2 Non - Compliance with Laws, Rules and Regulations

According to the Section 9.2 of the Management Services Circular No.01/2016 dated 24 March 2016, the Project Steering Committee should be comprised with the Secretary to the Line Ministry, an officer nominated by the Secretary to the Treasury, officers nominated by the Secretary to the Ministry of National Planning and External Resources Department and a representative nominated by Department of Project Monitoring and Management. However, Steering Committee of the Project had not comprised with above mentioned officers and the meetings of such committee had been held in 08 times during the year under review.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision for the year under review and the utilization of funds during the year under review up to 31 December 2016 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized	
	US\$ million	Rs. million		Rs. million	during the year under review
OFID	60	7,800	-	-	-
SFD	60	7,800	135	-	-
GOSL	20	2,600	500	344.20	768.50
	<u>140</u>	<u>18,200</u>	<u>635</u>	<u>344.20</u>	<u>768.50</u>

3.2 Physical Progress

The following observations are made.

(a) According to the information made available, road rehabilitation works had not been commenced during the year under review, eventhough physical progress thereon ranging from 33 per cent to 53 per cent were expected to be achieved as at 31 December 2016. The progress of the land acquisition was remained far behind the targets to be achieved and it coursed delays in implementation of the road rehabilitation works.

- (b) The Comprehensive Plan and Action 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 and as a result, the progress of the Project as a whole could not be monitored and evaluated in order to take corrective measures with the view of achieving objectives of the Project effective and efficient manner.

3.3 Contract Administration

The following observations are made.

- (a) Eventhough a sum of Rs. 689.05 million had been paid as at 31 December 2016 including payments amounting to Rs. 329.20 million to other government institutions such as Ceylon Electricity Board, Sri Lanka Telecom and Bibile Pradeshiya Sabha etc.for shifting of utility services, such works had not been commenced by the respective agencies even as at by 31 May 2017.
- (b) The geometrical design of the sections of the Road had been undertaken by the Design Office of the Road Development Authority in Kandy without entering into an agreement thereon. However, the interim payments aggregating Rs. 5.62 million had been directly made by the Project to the names of subcontractors selected by the Design Office.

3.4 Human Resources Management

Action had not been taken by the Project to recruit 02 Deputy Project Directors, a Project Engineer and a Project Secretary even as at 31 December 2016 as enable to expedite the activities of the Project.