

Transport Connectivity and Asset Management Project - 2017

The audit of financial statements of the Transport Connectivity and Asset Management Project for the first accounting year ended 31 December 2017 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 II, B (3) and 4.09 (b) of the General condition of Credit Agreement No. 5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Agreement 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 strengthen the capacity of the Road Development Authority on asset management and implement a Design-Build-Maintenance contracts using the format of Output and Performance Based Road Contract as pilot project, on the selected section from Ja-Ela to Chilaw of 58 kilometres of Peliyagoda – Puttalam Road. As per the Credit Agreement, the estimated total cost of the Project amounted to SDR 90.5 million (US\$ 125 million) equivalent to Rs.18,125 million and the entire amount was agreed to be financed by the International Development Association. The activities of the Project commenced on 30 June 2016 and scheduled to be completed by 30 June 2026.

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 Credit Agreement, etc.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether the financial covenants laid down in the Credit Agreement 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards, and
- (b) the funds provided had been utilized for the purpose for which they were provided.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The costs aggregating to Rs.140.21 million incurred by the Road Sector Assistance Project on behalf of this Project for the purposes of consultancy services, social impact assessment, preparation of Resettlement Action Plan and User Satisfaction Survey and land acquisition etc, had not been brought to account.
- (b) A sum of Rs.5.75 million spent by the Project to upgrade 02 ArcGIS Software packages and its maintenance purposes and handed over the respective software packages to the Road Development Authority at the date of procurement made on 28 February 2017. However, the cost incurred thereon had been treated as a property of the Project and shown in the financial statements accordingly.

3. Financial and Performance

3.1 Utilization of Funds

According to the information received, no reimbursements had been made during the year under review, eventhough the allocation of US\$ 125 million equivalent to Rs.18,125 million had been made in the Loan Agreement of the Project,. Further, a sum of Rs. 580 million had been provided in the Budget Estimate for the year under review under the Line Ministry as the contribution of the Government of Sri Lanka and out of that only a sum of Rs.63.79 million had been utilized at the end of the year under review.

3.2 Physical Progress

The following observations are made.

- (a) According to the information received, the Project had taken action to procure 02 computer software packages at a cost of Rs. 5.75 million for the purpose of supporting for assets management and road maintenance purposes and handed over to the Road Development Authority on 28 February 2017. In addition, the Project had initiated the procurement process to select a contractor for the rehabilitation of the section of Peliyagoda – Puttalam Road. The other activities of the Project such as carrying out of road user satisfactory survey, capacity building and training and the acquisition of lands for rehabilitation of the section of Peliyagoda – Puttalam Road had not been commenced as at 31 December 2017.
- (b) According to the Section A of the Schedule 02 of the Credit Agreement, the Project Steering Committee is responsible to provide guidance and overall supervision of the activities of the Project. However, no any meetings of the Project Steering Committee had been held up to 31 December 2017.

3.3 Matters in Contentious Nature

The Project had taken action to obtain a quotation directly from the authorized dealer and awarded the contract at a cost of Rs. 5.75 million to upgrade 02 ArcGIS software packages without calling bids thereon from the competitive bidders. Further, the imprest received from the Line Ministry to meet the project monitoring expenses had been utilized for the respective purposes instead of being utilized the allocation made under the Credit Agreement to procure capital items.

3.4 Human Recourses Management

According to the information received, 22 cadre positions for the Project Management Unit had been approved by the Department of Management Services. However, key posts of a Project Engineer, a Land Acquisition and Resettlement Officer, a Procurement Specialist and an Environmental and Social Safeguard Officer had remained vacant as at 31 December 2017.

3.5 Land Acquisition and Resettlement Activities

Eventhough the Project had identified 193 plots of land in the areas of Divisional Secretariats of Negombo, Wennappuwa, Mahawewa and Chilaw, action had not been initiated the process of acquisition of such lands as at 31 December 2017.