

Transport Connectivity and Asset Management Project - 2018

The audit of financial statements of the Transport Connectivity And Asset Management Project for the year ended 31 December 2018 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 the 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, presently the Ministry of Highways & Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to strengthen the Road Development Authority's capacity for asset management and to implement a Design- Build-Maintenance contract using an Output and Performance Based Road Contract Format to pilot management principles on the selected section of 58 kilometres from Ja-Ela to Chilaw of Peliyagoda – Puttalam Road. Activities of the Project are implemented under 02 components namely Institutional Strengthening and Capacity Building for Assets Management. As per the Credit Agreement, the estimated total cost of the Project amounted to US\$ 125 million (SDR 90.5 million) equivalent to Rs.18,125 million and the entire amount was agreed to be financed by the International Development Association. However, according to the decision of the Ministers of Cabinet on 15 August 2018, the initial scope of the Project had been changed. The works to be carried out as per the initial loan allocation of US\$ 100 million equivalent Rs.14,500 million had been removed from the Project. The Project commenced its activities on 30 June 2016 and restructured on 15 August 2018 and scheduled to be completed by 30 June 2026.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal

control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Physical Progress

2.1 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The objective of the Project is to strengthen the capacity of the Road Development Authority on asset management and implementation of a Design- Build-Maintenance system using an Output and Performance Based Road Contract Management Principles. Therefore, pilot programs had been implemented to maintain the sections of Peliyagoda – Puttalam Road from Ja-Ela to Chilaw. However, the Ministers of Cabinet had decided at its meeting held on 15 August 2018 to restructure of the scope of works of the Project, after incurring a sum of Rs.91.23 million for land acquisitions, surveying, designing of works and other operating costs by the Project up to 31 December 2018. Further, the detailed work plan under the new scope of works had not been prepared and concurrence of the Lending Agency had not been obtained even as at 31 December 2018. Further, no records had been maintained by the Project to enable to measure the physical progress of the works as at 31 December 2018.	It was observed that, a sum of Rs.91.23 million incurred by the Project for the preliminary work of the Ja-Ela to Chilaw road had become fruitless, due to abandoning the contract and restructure the Project on 15 August 2018.	Agreed with the figures shown in the audit report.	Action should be taken to mitigate the loss.
(b)	According to the information received, out of the allocations of US\$ 125 million (SDR 90.5 million) equivalent to Rs.18,125 million made in the Credit Agreement, an allocation of US\$ 100 million equivalent to Rs.14,500 million had been transferred subsequently to the Ministry of Provincial Council,	As a results of new restructure of the Project, the value of works had been decreased from Rs.18,125 million to Rs.2,175 million.	Agreed with the figures shown in the audit report.	The overall plan, action plan, procurement plan and staff of the Project should be approved according to the new scope of works of the Project.

Local Government and Sports for improvement purposes of the provincial roads. Further, out of the remaining balance, only a sum of US\$ 15 million equivalent to Rs.2,175 million had been allocated to continue the activities of the Project and the balance of US\$ 8.5 million equivalent to Rs.1,232.50 million had been transferred to the Road Maintenance Trust Fund. Eventhough the activities of the Project had been commenced on 30 June 2016 only a sum of Rs.96.97 million had been utilized as at 31 December 2018.

- (c) The Project had utilized only a sum of Rs.16.58 million during the year under review, out of the proceeds amounting to Rs.236.13 million credited by the Lending Agency on 11 January 2018. The balance amount of Rs.252.14 million had remained unspent in the Special Dollar Account maintained by the Central Bank of Sri Lanka on behalf of the Project.
- Proceeds of the Loan amounting to Rs.252.14 million had remained idle over a year.
- Rs.236.16 million had been taken before restructuring of the scope of the Project.
- The activities of the Project should be properly planned to increase the efficiency of fund utilization.