

Road Sector Assistance Project 2019

The audit of financial statements of the Road Sector Assistance Project for the year ended 31 December 2019 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) 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 and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Development Credit Agreement, then Ministry of Higher Education and Highways, presently the Ministry of 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 initial Development Credit Agreement, the estimated total cost of the Project was SDR 69.10 million (US\$ 100 million) equivalent to 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 (US\$ 98.1 million) equivalent to Rs.11,579 million had been provided under the First Supplementary Development Credit Agreement of 23 June 2008. The Second Supplementary Development Credit Agreement had been entered on 15 March 2011 and an additional allocation of SDR 63.6 million (US\$ 100 million) equivalent to 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. Further, the period of Project had been extended up to 30 June 2015. However, the operations of the Project had been continued and the financial statements for the year ended 31 December 2019 had been prepared and presented for audit.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 the 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. Comments on Financial Statements

2.1 Accounting Deficiency

Accounting Deficiency -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Although the rehabilitation and reconstruction works of national, provincial and rural road carried out by the Project had been completed and the activities of the Project had been closed as at 31 December 2016, necessary instructions had not been given by the Implementing Agency to wind up the operations of the Project. However, dispute on settlement of claims of Rs.67.69 million made by the contractor on the rehabilitation works of Galle- Deniyaya Road which remained unsettled even as at 31 December 2019.	Misapplication of accounting policies	Action will be taken to prepare winding up account showing liability of unsettled dispute, the exact amount of which is not yet certain, within one month period.	Action need to be taken to wind up the operations of the Project Monitoring Unit and prepare the financial statements accordingly.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

According to the information received, the rehabilitation and maintenance work of 620 km of national roads in 08 Provinces and 635 Km of provincial and rural roads under purview of 03 Provincial Councils and 09 Pradeshiya Sabhas were expected to be implemented by the Project. However, the rehabilitation works of 685 km of national road and 162 km of provincial and rural roads had been completed as at 30 June 2015. It was observed that 473km of provincial and rural roads were not completed and the rehabilitation and maintenance works of 11 roads with delays over a year whilst delays over 200 day of rehabilitation of other 05 roads had been completed. Further, the estimated costs of the rehabilitation works of the said roads aggregating to Rs.14,816 million had been increased up to Rs.22,065 million representing 48.92 per cent of the estimated cost at the time of the works, due to scope changes, variations and additional works etc.

3.2 Contract Administration

No ----	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	A sum of Rs.733.87 million had been claimed by the contractor of the Ingiriya – Ratnapura Road for the	Incurred additional	The final payment to Wakachiku Construction	Investigate reasons and the parties

extension of time and costs incurred on prolongation, acceleration and other purposes. In addition to, a sum of Rs.903.1 million for interest had been claimed by the contractor. According to the information received, the Cabinet of Ministers had decided at its meeting held on 16 October 2019 to pay a sum of Rs.1,150 million including VAT at 15 per cent to the respective contractor and settle the claims subject to recovery of entire amount from the parties responsible for the loss. Accordingly, the committee had been appointed by the Director General of Road Development Authority as per the instruction of the Secretary of Ministry of Highways and Road Development to investigate the parties responsible for the additional cost and to formulate strategies to avoid such additional costs in future projects. However, the progress of the investigation to find the responsible parties for loss had not been reported to the audit.

(b) The disputes on settlement of payments on rehabilitation and improvement of Galle – Deniyaya Road arisen in 2010. The Amicable Settlement Committee had been appointed by the Secretary of the Line Ministry to negotiate with the contractor and recommended the payment of Rs.67.69 million and US\$ 858,017.28 for the settlement of payment. As a result of delay in getting approval from the cabinet, the legal consultant of the contractor informed that they intend to proceed with Arbitration. However, the disputed amount Rs.1,897 million stated by the claimant had not been even negotiated to reasonable amount up to 31 July 2020. The liability to the contractor still exists without reaching amicable settlement.

costs. Co. Ltd. was made on 31 October 2019 Rs. 1,000 million including 15% of VAT (1,150Mn) and we received letter of discharge on same date. As per the Cabinet Decision No.192683/119/095, dated 09.10.2019, on instruction of the Secretary of MoHRD, the DG, RDA appointed a Committee to investigate the parties responsible for the additional cost and to formulate strategies to avoid such additional costs in future project.

Possibility to incur additional costs. Since no WB funds are available for making these payments and GOSL funds has to be used for settlement, the Ministry has taken action to appoint a committee with representative from the Finance Ministry.

responsible for the additional cost and formulate strategies to avoid such additional costs in future.

Action should be taken to minimize the loss.