

Road Sector Assistance Project - 2016

The audit of financial statements of the Road Sector Assistance 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 Section 4.01(b)(i) 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Development Credit Agreement, then Ministry of Highways and Road Development, presently the Ministry of Roads and 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 amounted to 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 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. Further, 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. The Project commenced its activities on 16 January 2006 and scheduled to be completed by 31 March 2011. However, the period of Project had been extended up to 30 June 2015. The operations of the Project had been continued and the financial statements for the year ended 31 December 2016 had been prepared and presented for audit.

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 Loans, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Development Credit Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans 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, and
- (h) Whether the financial covenants laid down in the Development Credit 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, 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 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 Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Development Credit Agreements, and
- (d) the financial covenants laid down in the Development Credit Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Advance received from the Road Development Authority under a special loan facility of National Saving Bank amounting to Rs.7.64 million remained outstanding as at 31 December 2016 had been shown under source of funds in the financial statements for the year under review instead of being shown under the current liability.
- (b) A sum of Rs.4.27 million had been shown in the financial statements as payable to a contractor without an acceptable documentary evidence to prove the genuineness of the payment.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions 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 Development Credit Agreement		Allocation made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA Loan							
4138 CE	100.00	10,125	-	-	-	68.37	9,709
4429 CE	98.10	11,579	-	-	-	76.84	10,912
4906 CE	100.00	11,081	-	-	-	62.01	9,326
GOSL	-	-	48.97	0.33	48.97	49.33	7,061
	<u>298.10</u>	<u>32,785</u>	<u>48.97</u>	<u>0.33</u>	<u>48.97</u>	<u>256.55</u>	<u>37,008</u>

3.2 Physical Progress

According to the information received, the rehabilitation and maintenance works of 620 kilometres of national roads in 08 Provinces and 635 kilometres of provincial and rural roads under the purview of 03 Provincial Councils and 09 Pradeshiya Sabhas were expected to be implemented by the Project. However, the rehabilitation works of 685 kilometres of national roads and 162 kilometres of provincial and rural roads had been completed as at 30 June 2015. The rehabilitation works of 04 sections of Peliyagoda-Puttalm Road and Colombo-Galle-Hambantota Road and construction works of overhead bridge at Panadura town carried out by the Project had been completed as at 30 June 2015 with delays ranging from 56 days to 359 days from the expected dates of completion.

3.3 Contract Administration

The following observations are made.

- (a) Due to unrealistic scope of the work, the items included in the Bill of Quantities at a cost of Rs.396 million had been removed from the estimate made to rehabilitate section of the Colombo– Galle – Hambantota Road from Cross Junction to Nalluruva Junction and new items at an estimated cost of Rs.552 million had been introduced. However, the approval for the variation orders for additional works had not been obtained, contrary to the paragraph 8.13.4 of the Government Procurement Guidelines.
- (b) The delay charges amounting to Rs. 295.93 million deducted from payment made to the contractor involved in rehabilitation of the sections of Colombo – Galle – Hambantota Road had been released at the time of settlement of final bills. However, the reasons thereon had not been explained for audit. Further, a sum of Rs. 5.67 million had been paid additionally to rectify the defects of the rehabilitated sections of the Road without considering the responsibility of the contractor to attend it during the defect liability period.
- (c) It was observed that the overhead Bridge at Panadura constructed at a cost of Rs.186 million in June 2016 for the use as a pedestrian crossing had remained closed even up to 31 December 2018, due to defects in construction works and the elevator system.

3.4 Extraneous Activities

The following observations are made.

- (a) According to the decision of the Amicable Settlement Committee, an additional payment of Rs. 68 million had been paid to the contractors, due to the violation of conditions of the Contract Agreement. However, action had not been taken to identify the responsible parties thereon.
- (b) It was observed that the material required for the operation of the Executive Engineer's offices of the Road Development Authority had been procured at a cost of Rs.6.52 million through the contractors engaged for the road rehabilitation works under the Project.

3.5 Idle Assets

A stock of pipes and accessories valued at Rs.13.37 million procured by the Project and handed over to the Road Development Authority had remained idle at the stores in Negambo over 03 years.