

## **Badulla –Chenkaladi Road Improvement Project - 2019**

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The audit of financial statements of the Badulla –Chenkaladi Road Improvement 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. My comments and observations which I consider should be reported to the Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreements, then the Ministry of Higher Education and Highways, presently the Ministry of 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 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\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by OPEC Fund for International Development and US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by the Saudi Fund for Development. The balance of US\$ 20 million is expected to be financed by the Government of Sri Lanka. The activities of the Project are expected to be completed by March 2019.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my 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 Opinion**

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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**

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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 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 Program 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**

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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. Comments on Financial Statements

### 2.1 Accounting Deficiencies

Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
Contrary to Sri Lanka Public Sector Accounting Standard No.08, the Project had not made provisions amounting to Rs.337.84 million against ten Interim Payment Certificates for the month of November and December 2019. As a result, work-in-progress amount, payable to contractors and retention money payable had been understated by Rs.337.84 million, Rs.251.86 million, Rs.20.2 million respectively. Further, mobilization advances had been overstated by Rs.65.78 million.	Understatement and overstatement of assets and liabilities.	Actions will be taken to rectify this when preparing the Final Accounts for the future periods.	Provisions should be made in the financial statements as per Sri Lanka Public Sector Accounting Standard No.08.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

No	Component	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Rehabilitation and Improvement of Roads	Under the rehabilitation and improvement of OFID section, each contract had been planned to cover length of 20 kilometers approximately. The physical progress relevant to the contract for the Package 01, Package 02 and Package 03 as at 31 December 2019 had reported as 72.02 per cent, 62 per cent and 32.57 per cent respectively.	Possibility to increase the cost of the project due to poor planning.	Agreed.	Action should be taken to expedite the balance rehabilitation works of the roads.

(b) Rehabilitation and Improvement of Roads	It was observed that the contract for Package 03 of OFID section had shown a very low progress of 32.57 per cent against the planned progress of 99.88 per cent as at 31 December 2019 even after elapse of 29 months from the commencement of the construction works despite the original time for completion as per the agreement was 30 months.	Possibility to increase the cost of the project due to poor planning.	This particular contractor's performance was poor throughout the project. Thus, as per the Condition of Contract "Notice to Correct" issued by the Engineer of the contract to the contractor in order to correct the poor performance.	Action should be taken to expedite the balance rehabilitation works of the roads.
(c) Rehabilitation and Improvement of Roads	Eventhough EOT has been granted up to 20 November 2020, the physical progress of the OFID packages by the end of November 2020 was only 47.88 per cent which indicates that even a half of the works had not been completed even by the end of the granted period.	Possibility to increase the cost of the project due to poor planning.	The discussions are in progress in various levels, about this contract package-03, for what remedial action would be taken in future, to complete this work.	Action should be taken to expedite the balance rehabilitation works of the roads.
(d) Rehabilitation and Improvement of Roads	Under the SFD section of rehabilitation and upgrades around 30 km each package, is expected to be completed by 04 May 2021. However, approximately physical progress of 46.57 per cent in Package I, 67.20 per cent in Package 02 and 36.73 per cent in Package 03, had been reached as at 31 December 2019.	Possibility to increase the cost of the project due to poor planning.	Works could be completed within the scheduled complete date.	Action should be taken to expedite the balance rehabilitation works of the roads.

### 3.2 Contract Administration

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	According to the Sub Clause 14.6 of Particular Condition of the Contract, the certified work done of an Interim Payment Certificate should be greater than 2 per cent of the value of the contract. However, there were 32 instances were observed where evaluation of Interim Payment Certificates below than the required threshold.	Overrunning of cost on evaluation of interim payment.	The condition was relaxed in several sections and paid IPC's in monthly due to the contractor's cash flow issues as well as requirement of Bank, who finance the contractor.	It is required to adhere with the thresholds stipulated in the condition of contract in order to minimize the costs, time and undue favouration for the contractors.
(b)	Eventhough the Section 38 of the gazette notification had been issued in the year 2015, compensation for 133 lots of lands belongs to Lunugala Divisional Secretariat had not been paid even up to 31 December 2019.	Possibility to increase the interest costs on compensation.	These compensation payments have been settled in year 2020 from the allocations of 2020.	Action should be taken to pay compensation without delays.
(c)	A sum of Rs. 770,880 had been paid to a Land Acquisition Investigation Adviser and a Land Acquisition Investigation Officer through interim payments as at 31 December 2019. However, the loan agreement with the OPEC Fund for International Development (OFID) had not provided money for land acquisition.	Possibility to increase the cost of the project.	Due to urgency of the Land Acquisition matters, it had to engage these persons, after consultation with the Ministry.	It is required to identify the exact cadre requirement for the Project Management Unit in future projects.