

## **China Development Bank Funded Priority Road Project 3 - (Phase II) - 2019**

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The audit of financial statements of the China Development Bank Funded Priority Road Project 3 - (Phase II) 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 Facility 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 reconstruct/rehabilitate existing national roads and rural roads providing crucial accessibility and quality of transport infrastructure and services to provide number of social and economic benefits to the people who living in the area. As per the Loan Agreement, the estimated total cost of the Project was US\$ 117.66 million equivalent to Rs.15,594.14 million and out of that US\$ 100 million equivalent to Rs.13,253 million was agreed to be provided by China Development Corporation of China.

### **1.3 Opinion**

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In my opinion, 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 flow statement 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.

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**

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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 the Project's internal control.
- 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 Performance

### 2.1 Physical progress of the Activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
As per the progress report, rehabilitation of road under the contract packages C38 -VO, C39 -VO, C40 -VO and C41-VO had only been completed 70 per cent, 94 per cent, 12 per cent and 10 per cent respectively at the end of the year under review.	Possibility to incur unnecessary expenditure by the project.	04 variations, mentioned in audit report are commenced works in different time periods and accordingly, progress is varied as at 31 December 2019. However, Agreed with the percentage of completion.	Action should be taken to speed up the balance rehabilitation of roads works.

### 2.2 Contract Administration

The following observations are made.

No	Audit Issues	Impact	Responses of the Management	Auditor's Recommendation
(a)	A sum of Rs. 210 million had been spent for the construction of Tangalle - Weeraketiya and Weeraketiya - Middeniya roads which were not within the scope of the project. Further, the handover details of these two roads had not been submitted for audit.	Possibility to increase the cost of the project	Suspended the roads construction after 08 January 2015. Accordingly, contractual process put on hold and Contractor demobilized the site. Therefore, handing over and taking over certificates were not progressing for these two roads.	Necessary action should be taken to ensure the completeness of the rehabilitation works and minimize the works carried out which is out of the project scope.
(b)	The separate pay items had been made in the Bill Of Quantities on road rehabilitation works by allowing contractors to quote the cost of performance security bond, contrary to the provisions made under the Sub Clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs. 2.59 million had been paid additionally to the contractors to reimburse the cost of performance security bonds.	Undue advantage for contractors.	The performance security is required prior to commencement of the contract, whereas the successful bidder is required to incur the expenditure to obtain the Performance Security prior to entering in to an agreement.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

- (c) An action plan had not been prepared in order to identify individual output as per their delegated duties as per National Budget Circular No 06/2015. Further, key performance indicators and a critical path for smooth function of the project activities had not been identified for the year 2019. As a result, the progress of the project as a whole could not be monitored and evaluated in effective manner.
- Possibility to increase the cost of the project.
- Action Plan has been prepared as per the requirement of the planning division using Ms Project software in line with the National Budget Circular No. 06/2015.
- Action plan should be prepared as per Circular instructions and the progress of the project could be monitored and evaluated in an effective manner.