

OPEC Funded Road Network Development Project - 2020

The audit of financial statements of the OPEC Funded Road Network Development Project for the year ended 31 December 2020 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports, Shipping and Highways, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to constitute as an integral part of Sri Lanka's Development Policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 62.46 million equivalent to Rs.7,121.32 million and out of that US\$ 40 million equivalent to Rs.4,560 million was agreed to be financed by OPEC Fund for International Development and the balance of US\$ 22.46 million equivalent to Rs.2,561.32 million was required to be provided by the Government of Sri Lanka. The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended in 02 instances up to 31 December 2019.

1.3 Qualified Opinion

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 2020 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.

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. **Comments on Financial Statements**

2.1 **Accounting Deficiencies**

No	Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Although the construction works of 4 contract packages were completed in 2015 and 2016 at a cost of Rs.4,255 million, they had not been transferred to the completed works as at 31 December 2020.	Understatement of Non-Current assets.	It is noted to capitalize the work in progress balance of the completed projects in year 2021 financial statements.	Assets should be recognised in line with Sri Lanka Public Sector Accounting Standard 01.
(b)	According to the financial statements and the records maintained by the General Treasury, total expenditure from the proceeds of the Loan amounting Rs.111.89 million	Possibility to misuse of fund due to lack of records.	It is noted to record the disbursements according to the records of Department of External Resources	Action should be taken to reconcile the balances.

had been incurred during the year under review. However, the corresponding amount had been shown as Rs.80.55 million in the records of External Resources Department. Further, the difference of Rs.31.34 million shown as disbursable foreign aid instead of being recorded under the loan in the financial statements as at 31 December 2020.

from year 2021 onward.

- (c) Eventhough a provision of Rs.1 million had been made for the delayed interest on land acquisition related to Eheliyagoda DS Office in the financial statements as at 31 December 2020, the evidences had not been provided by the project to verify that balance.
- Under/Over statement of assets and liabilities. Due to COVID situation, we have included an approximate amount received from the Divisional Secretariat. Provisions should be made according to the Sri Lanka Public Sector Accounting Standard No.08.

2.2 Non-compliance with Law, Rule and Regulation

Reference to the Law, Rule and Regulation	Audit Issues	Responses of the Management	Auditor's Recommendation
Section 9.3 of the Management Services Circular No.01/2019 dated 05 March 2019.	The project steering committee should be met at least once in two months. However, the Steering Committee of the Project had not been met during the year 2020.	Agreed.	All Steering Committees should be implemented as per circular instruction.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
After completion of 04 construction contracts in the year 2016, the rehabilitation of A005 - Peradeniya - Badulla Chenkaladi Road was commenced on 09 June 2017 and was expected to be completed on 26 August 2018. However, it had not been completed even as at 31 October 2021 and it may indicate that poor project management caused to incur additional cost to the project.	The contractor has achieved 92% progress as at 30 November 2021 and advised to complete the project without any further delay.	Action should be taken to speed up the rehabilitation works.

3.2 Contract Administration

Audit Issues

The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance security bonds at cost of respective contractor. Accordingly, a sum of Rs.1 million had been paid additionally to the contractors under pay item 119.2(1) as lump sum to reimburse the cost of performance security bonds obtained by the contractor of Peradeniya - Badulla Chenkaladi Road.

Responses of the Auditor's Management Recommendation

If an amount is not stated in the Contract Data, this Sub-Clauses shall not apply". Hence it has been provided pay Item for Performance Security.

The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

3.3 Issue on Land Acquisition

Audit Issues

It was observed that, an amount Rs.208.67 million had been paid as compensation for 2829 lots of lands and Rs.29.57 million as delayed interest had been paid for 168 lots of land as at 31 December 2020. Further noted that, only 146 lots of lands had been registered under Road Development Authority as per sub section 44 of the Land Acquisition Act at even as at 31 December 2020.

Responses of the Management

Agreed.

Auditor's Recommendation

Action should be taken to speed up the land acquisition process.