

## **Saudi Funded Road Network Development Project - 2020**

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The audit of financial statements of the Saudi 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 the Parliament appear in this report.

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

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According to the Loan Agreement, then Ministry of Ports 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 objective of the Project is to rehabilitate and improve 131.50 km of 06 road sections in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 81.75 million equivalent to Rs.10,628 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by Saudi Fund for Development. The Project commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020.

### **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 2020 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.

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.

| No  | Accounting Deficiencies  | Responses of the Management   | Auditor's Recommendations  |
|-----|--|---|--|
| (a) | Eventhough the rehabilitation works of 6 roads had been completed in 2014 and 2015 at a cost of Rs.6,885.8 million, they were not transferred to the Completed works even up to 31 December 2020.  | Action will be taken to transfer the work in progress balance of those projects to Civil Works in the Financial Statements of 2021.   | 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 funds utilized from the proceeds of the Loan was Rs.368.74 million during the year under review. However, the corresponding amount had been shown as Rs. 194 million in the records of External Resources Department. In addition to that, an amount of Rs.302.37 million had been shown as disbursable foreign aid instead of being recorded under the loan in the financial statements as at 31 December 2020. Therefore, utilization of the loan proceeds had not been properly accounted in the financial statements as at 31 December 2020. | Schedule for Reconciliation of Total Disbursements of the project with the disbursements shown in the Department of State Accounts and disbursements shown in the report of the External Resources Department will be provided with the Financial Statements. | Need to discuss with relevant parties and should minimize the differences.               |

(c) Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision had not been made for the delayed interest need to be paid for 1,356 plots of lands on land acquisition as at 31 December 2020. Noted and action will be taken to account the interest made as per Sri Lanka Public Sector Accounting Standards No 08. Provisions should be made as per Sri Lanka Public Sector Accounting Standards No 08.

- 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

## 3. Physical Performance

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

| No  | Component                                 | Audit Issues   | Responses of the Management  | Auditor's Recommendations  |
|-----|---|--|--|--|
| (a) | Rehabilitation and Improvement of Bridges | The construction works of the widening of the Bridge number 6/2 on Orugodawatta – Ambathale had been commenced on 11 October 2019 and schedule to be completed on 12 September 2021. However, only 26 per cent progress had been achieved from targeted 80 percent as at 31 December 2020. | Due to Covid-19 Pandemic situation, site was closed and not worked. In addition, delays in utility shifting also effected for the above delay. | Action should be taken to speed up the balance rehabilitation works. |

- (b) Rehabilitation and Improvement of Bridges      The construction works of the widening of the Bridge number 6/1 on Orugodawatta – Ambathale had been commenced on 19 September 2019 and schedule to be completed on 25 May 2021. However, only 62 per cent progress had been achieved as at 31 December 2020.
- Due to Covid-19 Pandemic site was closed. In addition, delays in utility shifting also effected for the above delay.
- Action should be taken to speed up the balance rehabilitation works.

### 3.2 Contract Administration

| No  | Audit Issues   | Responses of the Management   | Auditor's Recommendations  |
|-----|--|---|--|
| --- | -----  | -----   | -----  |
| (a) | 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. Accordingly, a sum of Rs. 2.79 million had been paid additionally to 04 contractors to reimburse the cost of performance security bonds obtained by the contractors.   | As per the Condition of Contract, Contractor has to provide Performance Security on his own cost. However usually BOQ item provides for the same and, if not, contractor has to include/distribute this cost in to other BOQ items. | The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents. |
| (b) | Eventhough the land acquisition processes commenced in the year 2012, the land acquisition process is still in progress. It was observed that an amount Rs.135.89 million had been paid as compensation for 1,449 lots of land and Rs.7.8 million as delayed interest for 27 lots of lands as at 31 December 2020. Further, noted that the project had failed to register any lots of lands under the Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even as at 31 December 2020. | Agreed.   | Need to take prompt actions to settle the compensation and avoid additional costs thereon.   |