

Badulla – Chenkaladi Road Improvement Project - 2021

The audit of financial statements of the Badulla –Chenkaladi Road Improvement Project for the year ended 31 December 2021 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

According to the Loan Agreements, then the Ministry of Higher Education 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 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 Project had commenced its activities on 12 January 2017 and scheduled to be completed by 30 June 2021. However, the date of completion of the activities of the Project had been extended up to 31 December 2022.

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 2021 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

The following observations are made.

No	Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a)	Contrary to Sri Lanka Public Sector Accounting Standard 08, the project had not made provision amounting to Rs. 189.37 million for 03 interim payment certificates on the civil works for the year of 2021.	At the finalization of the accounts, it was not possible to arrive of an estimate to make a provision for these two bills without proper information.	Adhere to the Sri Lanka Public Sector Accounting Standards.

- (b) According to the financial statement and the records maintained by the General Treasury, total proceeds of the SFD Loan amounting Rs.2,536.57 million had been utilized during the year under review. However, the corresponding amount had been shown as Rs. 1,425.65 million in the records of External Resources Department. Further, as per the financial statements total expenditure from the proceeds of the OFID loan amounting Rs.1,334.8 million during the year under review. However, the corresponding amount had been shown as Rs.1,282.38 million and Rs.1,282.47 million in the records of External Resources Department and General Treasury respectively.
- These RFA amounts are not recorded as expenditure by the TOD.
- Reconciliations need to be carried out.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
The Contractor under the Package 03 in OFID section had stopped the works on 12 July 2021. At the stoppage of works, 60.32 per cent of physical progress and 55.03 per cent of financial progress were achieved. Even though it had elapsed nearly one year since the Contractor abandoned the works as at the audited date of 10 July 2022, the employer had not been terminated the contract as per the Sub clause 15.2 of the Conditions of the Contract. Further, noted that the performance guarantee also will be expired on 31 July 2022.	Procedure for Contract Closure is processing with the committee appointed.	Action should be taken to speed up the balance works.

3.2 Progress of the Land Acquisition Process

The following observation is made.

Audit Issue	Response of the Management	Auditor's Recommendation
Eventhough incentives aggregating Rs.1.06 million had been paid for the officers to expedite the land acquisition process, the land acquisition process had not been completed even as at 31 December 2021.	Covid issue and fuel issue also affected the progress.	Necessary action should be taken to speed up the land acquisition process.

3.3 Contract Administration

The following observation is made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Taking over certificates for parts of the works had been issued on 03 occasions for the contract package 02 in OFID Section and the latest defect notification period ends on 03 December 2022. According to the snag list programs submitted by the Contractor, all works should be completed by 28 March 2022. However, it was observed that considerable number of outstanding works and defects were not completed up to 26 May 2022.	The donor has not disbursed the Contractor's payment since last January and may cause the cash flow problem to the Contractor and getting delayed the completion of the snag list too. However, it will be completed by 03 December 2022.	Action need to be taken to speed up the balance outstanding works and defects.
(b)	Based on the decision of the Ministry Procurement Committee, the approval had been granted to award the contracts for balance works of contract package 3 of OFID Section for a total contract sum of Rs.2,919.56 million and it was observed that the value of such contracts had been increased by Rs.2,154.37 million representing 107 percentage increase when compared with the original contract price. It was observed that an additional cost will have to be borne by the government due to poor performance, huge delays and delay in taking actions on prompt time.	The Cost estimate for the balance work as per the prevailing rate which is very much higher than the original estimate.	Action need to be taken to speed up the balance works.
(c)	The outstanding mobilization advance payment due from the Contractor under the Package 03 in OFID section was amounted to Rs.208.67 million as at 31 December 2021 and it had not been recovered even as at the audited date, 10 July 2022. Further, it was observed that the advance payment guarantee had been expired on 25 April 2022.	As per the final certificate issued by the Engineer, it has been fully recovered.	Action should be taken to recover the advances immediately.
(d)	Under the OFID Section of the Project, 04 out of 34 non-conformance reports which couldn't achieve the asphalt specifications had not been even closed as at 31 December 2021. Further, under the contract packages 02 and 03 of the OFID Section, 366 out of 806 public complaints had also not been attended as at 31 December 2021.	Public Complaints under the package 02 will be attended before their Defect Notification Period of 04 December 2022. The complaints related to contractor's risk are already sorted for package 03.	Action need to be taken to rectify the asphalt failure sections and attend for the public complaints immediately.

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| <p>(e) 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 30 instances were observed where evaluation of Interim Payment Certificates below than the required threshold.</p> | <p>These payments were made to improve the Contractor's cash flow and for the benefit of the Project.</p> | <p>Adhere with the thresholds stipulated in the condition of contract.</p> |
| <p>(f) 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 provision made under the sub clause 4.2 of General Condition of the Contract. Accordingly, a sum of Rs 84.15 million had been paid additionally to the contractors to reimburse the cost of performance security bonds obtained by the contractors. Further, action had not been taken to recover that amount from the contractors even up to 31 December 2021.</p> | <p>We have taken a decision to exclude this item from future contracts.</p> | <p>Bidding documents should be prepared accurately.</p> |