

## **Saudi Funded Road Network Development Project - 2022**

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The audit of financial statements of the Saudi Funded Road Network Development Project for the year ended 31 December 2022 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, 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 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 was 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 balance amount of Rs. 2,828 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020. However, the date of completion of the activities of the Project had been extended up to 09 April 2022.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 2 of this report.

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 scepticism 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 Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	Even though the widening of bridge No. 4/3 on Orugodawatta – Ambatale Road had been completed on October 2021, the	251.09	The date of final payment made for the bridge No. 4/3 was on 10.08.2022 and the retention money was released on 13.03.2023.	Completed road cost should be capitalized in the financial statements.

		<p>cost of the said bridge had not been transferred to the completed work from the working progress as at 31 December 2022. As a result civil works had been understated by that amount in the financial statements.</p>	
<p>(b) As per the Section 43(a) of Sri Lanka public Sector Accounting Standard 5, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments relating to the foreign loan of the project had not been accounted for the year under review as per the requirements of the standard.</p>	<p>-</p>	<p>Action will be taken to transfer the work-in-progress balance of the project to Civil Works in year 2023.</p> <p>From the initial stage of the project disbursements from the loan has been accounted based on the Report of Department of State Accounts. When preparing Financial Statements we have recorded the actual disbursement, therefore we have not considered exchange rate as at 31 December 2022. However, this matter has been referred to the General Treasury for necessary instructions.</p>	<p>Adhere to the Sri Lanka Public Sector Accounting Standards.</p>
<p>(c) The accumulated interest paid on loan by the External Resource Department as at 31 December 2022 had not been accounted in the financial statements of the Project. As a result, foreign loan balance and work in progress in the financial statements had been understated by that amount.</p>	<p>83.62</p>	<p>There is no requirement to record that interest and such interest is recorded under the vote assigned to Treasury Operation Department. That is why the project had not accounted the interest paid on loan in the financial statements from the initial stage.</p>	<p>Interest and commitment charges should be accounted in the project financial statements.</p>
<p>(d) As per the Section 18 of Sri Lanka Public Sector Accounting Standard – 04, borrowing cost that are directly attributable to the acquisition, construction or production of assets should be capitalized as part of the cost of that assets. However, the Project had not capitalized borrowing cost relevant to the RDA financing facility as at 31 December 2022.</p>	<p>-</p>	<p>RDA has obtained term loans from local banks from time to time for financing project cost. All the cash flows associated with debts savings incurred in RDA books and no any involvement by the project.</p>	<p>Adhere to the Sri Lanka Public Sector Accounting Standards.</p>

## 2.2 Unreconciled Balances

Value as per Financial Statements Rs. million	Value as per corresponding records Rs. million	Description of the corresponding record	Response of the Management	Auditor's Recommendations
112.57	48.5	Total expenditure from the proceeds of the loan as per the records of External Recourse Department.	Reconciliation Statement of ERD Report and Report of the Department of State Accounts was attached in the Financial Statements.	Deference should be reconciled with documentary evidences.

## 2.3 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Management Service Circular No. 01/2019 dated 05 March 2019. Section 9.3	Although the Project Steering Committee should be met at least once in two months, the Project had conducted only one meeting during the year under review.	Due to COVID-19, gathering restricted by the Ministry of Health, all Ministries had to obey to the Health Guidelines.	Action should be taken to comply with the Circular instructions.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

#### (a) Widening of the Bridge No. 6/2 on Orugodawatta – Ambatale

Component	Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
Civil construction	Widening of the Bridge No. 6/2 on Orugodawatta – Ambatale	100	82	The Construction works had been commenced on 17 January 2020 and schedule to be completed on 13 April 2021. However, the Project had achieved only 82 per cent physical progress even as at 31 December 2022 after lapse of more than 08 month from the original contract completion date.	Due to unavoidable situation came-up with related to the Water Board pipes laying.

Although the first Extension of Time (EOT) was expired on 15 August 2022, it was observed that further extension had not been approved for the future period and the project had not taken necessary action to charge liquidated damages from the contractor as per the section 8.7 and 14.15 (b) of the General Conditions of the contract.

**Response of the Management**

Contractor is having his right to revise the construction programme in accordance to Clause 8.3 of GCC and to request EOT accordingly. EOT-1 was approved by the Chairman, RDA on 06.07.2023 and EOT-2 was submitted for approval on 29.08.2023.

**Auditor’s Recommendations**

Maximum effort should be taken to achieve intended targets of the project without additional cost.

**(b) Land Acquisitions**

Component	Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Lots	Lots		
Land acquisition	Registration under Section 44 of the Land Acquisition Act.	238	N/A	Although the land acquisition process of the Project had started in the year 2012, it was not completed even as at end of the year under review. It was observed that an amount of Rs. 153.7 million had been paid as compensation for 238 lots of land and Rs. 17.57 million as delayed interest for 82 lots of lands as at 31 December 2022. Further, the Project had failed to furnish the details regarding the lots of lands were registered under Road Development Authority as at 31 December 2022.	Inefficient project management and week supervision.
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**Response of the Management** It is carried out by relevant Division Secretaries. However, no registration under Section 44 till 31 December 2022 and there are 34 registrations up to 30 September 2023.

**Auditor’s Recommendations** Maximum effort should be taken to achieve intended targets of the project without additional cost.

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor’s Recommendation
(a)	The Construction works of the widening of the Bridge No. 6/1 on Orugodawatta – Ambatale Road had been commenced on 07 October 2019 and schedule to be completed on 02 January 2021. Although it was stated that the above bridge was completed on 15 December 2021 as per Handing over Certificate issued on 03 March 2022, main outstanding works such as all surfacing works, interlock and paving, placing of slabs on bridge foot walk, street lighting had not been completed at the time of handing over the bridge contrary to sub Clause 10.1 of the General Conditions of Contract. Further, the details of the completion of above balance works were not made available for the audit.	After having a discussion with the Engineer for the contract, Contractor and the Ministry, it was decided to take over the bridge after allowing the traffic on the bridge. The balance works mentioned in out-standing works list of taking over certificate and request to complete it once the Water Board works completed at the site.	Maximum effort should be taken to achieve intended targets of the project without additional cost.
(b)	The construction works of the widening of the bridge No. 4/3 on Orugodawatta – Ambatale Road had been commenced on 03 October 2019 and schedule to be completed on 02 January 2021. Although it was stated that the bridge was completed on 26 October 2021 as per the Handing over Certificate, main outstanding works such as all painting works, Gabion wall construction, cleaning and grinding correction Bridge back side wall and paving construction works had not been completed at the time of handing over the bridge contrary to sub Clause 10.1 of the General Conditions of Contract. However, the evidence of completion of above balance work had not been made available for the audit.	Due to an unavoidable situation with Water Board trench excavations and lying of new pipe lines may affect the construction work the contractor entitles for EOT for those extra works along with extra cost. The balance works mentioned in out-standing works list of taking over certificate and request to complete it once the Water Board works completed at the site.	Maximum effort should be taken to achieve intended targets of the project without additional cost.

### 3.3 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The Project had utilized only Rs. 8,605.72 million as at 31 December 2022 out of the total allocation of Rs.10,628.0 million after laps of nine years. Hence, it was observed that 19 per cent equalling Rs.2,022.28 million had remained as unutilized as at 31 December 2022.	The balance amount of loan as at 31.12.2022 was Rs. 660.00 Mn and decided to use such loan savings to reconstruct the Bridge No. 4/1 on Orugodawatta – Ambatale Road.	Maximum effort should be taken to utilize the fund during the project period.
(b)	The allocation made in the budget for the year under review was Rs. 192.82 million and out of it, the Project had only utilized Rs.117.06 million during the year under review. It was observed that the poor performance and the delay of the constructions were mainly affected to that situation.	As sufficient imprest was not received for GOSL component, only Rs 4.9 million could be utilized.	Maximum effort should be taken to utilize the fund during the project period.

### 3.4 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	As per progress report furnished to the audit, the reconstruction of bridges 4/3, 6/1 and 6/2 on Orugodatatta – Ambatale road had schedule to be completed on 02 January 2021 and 13 April 2021 respectively. However, the actual completion date was extended up to 06 June 2023 to complete the entire three bridges. Thus, it was observed that the delay in construction works had directly affected to increase the project cost due to maintaining the Project Monitoring Unit until completion of the extended period of the constructions. Therefore, the project had to be incurred a sum of Rs.0.93 million uneconomically during the year under review for maintaining the PMU.	Until Water Board finishes their new pipeline lying, main outstanding works not possible to be attended.	Maximum effort should be taken to achieve intended targets of the project without additional cost.

- (b) The details had not been furnished to audit regarding the approval of the Cabinet of Ministers for the extended loan validity period commenced on 09 April 2022. Loan validity period of the project was extended by Saudi Fund for Development till 31.12.2023. Cabinet approvals should be obtained for loan extension

### 3.5 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the progress report for the month of December 2022 and financial statement as at 31 December 2022, the differences are observed in date of commencement and completion of construction works of widening of the Bridges number 4/3, 6/2 and 6/1 on Orugodawatta – Ambathale road.	This is a mistake and corrected the figures.	Accurate documentary evidences should be maintained.
(b)	A proper and reliable method had not been followed to segregate the common expenditures (vehicle chargers, rent, water bill, cleaning expenses) among Miscellaneous Foreign Aided Projects in the year under review.	The amount is charged depend on the availability of imprest and allocation in each month and the total project cost for each project.	Suitable policy should be adopted to apportion the common expenditure.
(c)	Action had not been taken to complete the outstanding works at the date of the Handing over Certificate was issued to curtail the project cost.	Completion of outstanding work mainly depended on Water Board work. However, all outstanding work other than those were completed.	Maximum effort should be taken to achieve intended targets of the project without additional cost.