

Transport Connectivity and Asset Management Project - 2023

The audit of financial statements of the Transport Connectivity And Asset Management Project for the year ended 31 December 2023 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 read in conjunction with Section II, B (3) and 4.09 (b) of the General condition of the Credit Agreement No.5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 Credit Agreement the Ministry of Higher Education and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to strengthen the Road Development Authority's capacity for asset management and to implement a Design- Build-Maintenance (DBM) contract using an Output and Performance Based Road Contract (OPBRC) format to pilot management principles, on the selected road section from Ja-Ela to end of Chilaw town on Peliyagoda – Puttalam Road approximately 58 Km. As per the Development Credit Agreement No.5788, the estimated total cost of the Project was SDR 90.5 million equivalent to US\$ 125 million or Rs.18,125 million and the entire amount was agreed to be financed by the International Development Association(IDA). However, according to the Cabinet Decision No 18/1682/805/051 dated 15 August 2018, the initial scope of the Project had been changed. Accordingly, out of initial loan allocation US\$ 100 million equivalent Rs.14,500 million had been removed from the Project and had been allocated to the Ministry of Provincial Council, Local Government and Sports for improvements of the all Provincial roads. Out of the remaining balance, only a sum of US\$ 16 million equivalent Rs.2,320 million had been allocated to continue the activities of the Project and balance amounting US\$ 8.5 million equivalent to Rs.1,232.5 million had been transferred to the Road Maintenance Trust Fund. However, the total loan allocation for the Project had been again reduced to US\$ 9 million equivalent Rs.1,305 million due to transferring of US\$ 7 million to COVID 19 response as per the requestment made by the Government of Sri Lanka on 6 May 2020. The project had commenced its activities on 30 June 2016 and restructured on 15 August 2018 and completed by 30 September 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 the 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

	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(i)	Even though mobilization advance amounting to Rs.10.91 million remained to be recovered as at 31 December 2023. It had been shown as recovered in the financial statements as a result current assets of Rs.10.91 million had been understated in the statement of financial position.	10.91	Agreed. Rs.10,914,681.26 recoverable mobilization advance has been restated by passing the journal entry and now it has been corrected.	Current status should be represented in the financial statements.
(ii)	The action had not been taken to release the LC advance after the importation of the assets. As a result, non – current assets had been understated by Rs.155.29 million.	155.29	Agreed. As per the conditions of contract balance amount of LC released after issuing certificate of acceptance by the purchaser.	Adhere to the SLPSAS No.7.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2023		Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
Even though the closing date of the Transport Connectivity and Assets Management Project (TCAMP) was 30 September 2023, the overall physical progress of the main activities of the Project was 98.81 percent against the targeted progress of 100 percent as at 31 December 2023.	100	98.81	Adversely affect to the Project Performance	Contract no. LK-RDA-148668 NC-RFB has not been completed by 31.12.2023 due to some dispute arisen.
Response of the Management	Agreed			
	All project activities except contract no. LK-RDA-148668 NC-RFB are 100% completed as per the contract agreements, Hence the overall physical progress was 98.81% as at 31.12.2023.			
Auditor's Recommendations	Action need to be taken to expedite the work as per the work plan			

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	<p>The activities of the Project are implemented under 2 components namely institutional Strengthening and Capacity Building for assets Management and the estimated total cost of the Project was SDR 90.5 million equivalent to US\$ 125 million or Rs.18,125 million. However, according to the Cabinet Decision No 18/1682/805/051 dated 15 August 2018, the initial scope of the Project had been changed. Accordingly, out of initial loan allocation US\$ 100 million equivalent Rs.14,500 million had been removed from the Project and that amount had been allocated to the Ministry of Provincial Council, Local Government and Sports for improvements of all Provincial roads. Out of the remaining balance, only a sum of US\$ 16 million equivalent Rs.2,320 million had been allocated to continue the activities of the Project and balance amounting to US\$ 8.5 million equivalent to Rs.1,232.5 million had been transferred to the Road Maintenance Trust Fund. However, the total loan allocation for the Project had been again reduced to US\$ 9 million equivalent Rs.1,305 million due to transferring of US\$ 7 million to COVID 19 response as per the requestment made by the Government of Sri Lanka on 6 May 2020. Finally a sum of US\$ 7 million equivalent Rs.2,086 million had been allocated to continue the activities of the Project and balance amounting US\$ 2 million had been transferred to support the ongoing economic crisis in the country. The project had commenced its activities on 30 June 2016 and restructured on 15 August 2018 and completed by 30 September 2023. Further, it was observed that due to limiting the loan fund, implementing of institutional and governance reforms action plan could not be done.</p>	Agreed	Action need to be taken to expedite the works as per the work plan.
(b)	<p>A part of the loan proceeds intends to apply for payments of cost involved in Non-consultancy service contract and the contract amount was Rs.190.77 million and scheduled to be commenced on 24 June 2021 and scheduled to be completed on 23 February 2023. However, as per the original programme was reported only 85 percent physical progress as at 31 December 2023.</p>	Agreed	Action need to be taken to expedite the work as per the work plan

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| (c) | It was observed that, initial scope of the consulting work has been changed due to an identification of an additional works under the variation orders, which was not identified at the commencement of the contract, the contract had made variation aggregation to Rs.29.23 million representing 17.79 percent of the total cost of the contract package without getting approval as per the supplement 14 of the procurement manual. | PMU had withdrawn approval of the variation no 4&5 though issued at the initial stage. And then informed to the service provider to carry out these tasks under the same scope of work. | Need to identify the correct scope of works at the initial stage. |
| (d) | According to the Clause 3.1 of the General Condition of Contract (GCC), the service provider shall perform the services in accordance with the specifications and the description of the services. Even though a sum of Rs.161 million had been paid the consulting report could not be used for the purposes of the Geometric Design of Highways. The releasing of payment without receiving reports as per the contract agreement was a problematic issue in audit. | Agreed, | Instructions should be given to complete final report according to the description of the Service in contract agreement. |
| (f) | The objective of the contract for preparation of Road Reservation & Drainage Maps and collecting details of Existing Drainage System & Identifying Required Drainage Improvements of National GIS format in Western, North Western and Sabaragamuwa Provinces. It was observed that, variation order No.01,02,03 and 06 the cost of Rs.10.79 million had been incurred for the payment of driver salary and provide a double cab which were not in the scope of the contract. | Agreed, | Action should be taken to implement the project activities within the scope of the project |
| (g) | Although the performance of the service provider was very poor, action had not been taken by the project to deduct liquidation damages from the contractor as per the Clause 3.8.1 of the special condition of contract. It was observed that, delay damages amounting to Rs.9.5 million has to be deducted from the ED & PMC skills JV company. | Adjudication Board (DAB) has been appointed to resolve the disputes related to this contract and DAB is being processed now. Liquidation damages have to be considered during the next payment. | Effective action should be taken to claim delay damages as per the condition of contract. |

(h) Liquidated damages amounting to Rs.5 million had to be recovered from the payment for supply of aerial plat from truck had been released to supplier. Further, it was observed that, liquidated damages amounting to Rs.5 million had been mentioned in the creditor control account and recorded as liability in the financial statement as at 31 December 2023. The releasing of liquidated damages was a problematic issue in audit.

The supplier has informed that due to some reasons they were unable to supply spare parts as agreed with the vehicle.

Effective action should be taken to claim delay damages as per the condition of contract.