

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) - 2023

The audit of financial statements of the Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of expenditure and the cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 provisions in the loan agreement No.5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Amended Financing Agreement of the Transport Connectivity and Asset Management Project, then the State Ministry of Provincial Councils and Local Government presently Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments Affairs is the Executing Agency and Provincial Road Authorities in all provinces are the Implementing Agencies for the revised Component 02. The objectives of the project are Strengthen the capacity of the Road Development Authority of asset management and improve access and management framework for Provincial roads. As per Financing Agreement of the project, the total estimated cost of the Project was US\$ 125 million equivalent to Rs.21,875 million. As per amendment to the Financing Agreement of the project, the estimated total cost of the revised Component 02 was US\$ 109 million equivalent to Rs.19,075 million. The Project commenced its activities on 02 May 2019 and scheduled to be completed by 31 March 2023. The project period was extended up to 31st March 2024

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for 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 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 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 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 |
|--|---|-----------------------------------|--|
| Department of Management Services Circular No. 1/2019 dated 05 March 2019. | Although National Operations Committee Meetings should be held once in every 02 months, only 03 meetings have been held during the year under review. | No comments have been made | Project Operations Committees should be held systematically. |

3. Physical Performance
3.1 Matters in Contentious Nature

| No | Audit Issue | Response of the Management | Auditor's Recommendation |
|-----------|--|---|--|
| (a) | 121 work items estimated at Rs.43.2 million related to 03 contract packages remained unfulfilled, for 108 estimated works, the value of work performed was less than the estimated amount by Rs.129.96 million, for 117 works of 04 packages that exceeded the estimated amounts by Rs.218.4 million and Rs.53.4 million had been spent for Embankment construction in 03 packages which was not previously estimated. Accordingly that the duties of the consultants had not been performed properly. | A rough estimate (without design) is prepared at the start of the project and is used to call for tenders. After award of contract, proper values are identified and estimates are revised. These variations can be kept at a very minimum level if the road estimation is done by first designing and identifying the required requirements. However since there are no competent officials in the Provincial Road Authorities /Departments for that, after the award of the contract, a group of officials of the contractor and the engineer will be involved in this design and estimation process, and the appropriate estimates will be prepared at that time. ABC laying was not estimated at the beginning, but after the work on the road started (a few years after the estimate), it was found that the road surface was very weak, so the entire | Project should follow the said requirement in the procurement guideline in order to reduce the excessive burden on the government due to variations. |

road had to be covered with ABC, and accordingly road shoulders and embankment construction had to be done. Hence there was an increase in payment amounts.

(b) Although the price of a unit submitted for each item in the BOQ should also include the transportation cost, Rs.11 million was paid to the contractor as transportation cost in the NWP 03 package and it was used for price variation.

Initially it was not decided to apply full ABC on both these roads and later after the contract was awarded due to the weakness in the road surface; action was made to develop the road applying full ABC. Accordingly the quantities of materials have changed.

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(c) Due to quantity and price variations in the contracts of the project, the variation orders were issued as 13.7 , 14.8 and 15.5 per cent of the contract value in relation to the 03 contract packages namely NWP 02, NWP 03 and WP 01, exceeding the contingency provision value of 10 per cent. As per paragraph 8.13.4 of the Procurement Guidelines, Chief Accounting Officer may approve variance orders up to the limit of 15 per cent beyond the contingent provision limit of 10 per cent of the estimated contract value after submitting all documents explaining the variances by the Project Director and if the Chief Accounting Officer is not satisfied with them, on the recommendations of the Technical Committee and the Procurement Committee, Chief Accounting Officer may approve the variation orders. However contrary to that, after the issuance of the variation orders, the recommendations of the Procurement Committee and the approval of the Chief Counting Officer had been given.

Accept the observation. Variations occur frequently in the development of roads and due to economic recessions in the past there were large increases in price Contingencies and due to this reason it is practically difficult to get approval from the Chief Accounting Officer for these increases. Therefore those increases were filed together and submitted for approval at one time, which is the method followed.

Project should follow the said requirement in the procurement guideline in order to reduce the excessive burden on the government due to variations.

**3.2 System and Controls
Audit Issue**

Response of the Management

**Auditor's
Recommendation**

Sufficient internal audit process for the project activities had not being carried out for the year under review.

Internal Audit is being carried out now.

Internal audit should be functioned properly.