

## **OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project - 2017**

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The audit of financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project for the year ended 31 December 2017 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 Loan Agreement No. 15111PB dated 10 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development.

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

According to the Loan Agreement of the Project, then Ministry of Ports, Shipping and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is upgrading 65.45 kilometres of key Highways in Colombo suburbs and reconstructing of the Brigade of Narahenpita - Nugegoda Road. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 94.99 million equivalent to Rs.12,347.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.

- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Accounting Deficiency

The value of the civil works done and retention money shown in the financial statements had been understated by Rs.9.81 million and Rs. 11.54 million respectively as at 31 December 2017, due to accounting errors.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
OPEC	50.00	6,499.57	1,217	9.36	1,217	18.42	2,395
GOSL	44.99	5,847.80	850	6.05	786	22.31	2,901
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<b>Total</b>	<b><u>94.99</u></b>	<b><u>12,347.37</u></b>	<b><u>2,067</u></b>	<b><u>15.41</u></b>	<b><u>2,003</u></b>	<b><u>40.73</u></b>	<b><u>5,296</u></b>

According to the above information, the utilization of the proceeds of the Loan had remained slow, due to lack of comprehensive overall plan to cover the entire period to achieve the anticipated financial and physical targets.

### 3.2 Physical Progress

The scope of works of the Project consisted with rehabilitation and improvement of 63.72 kilometres of national roads in Colombo district and the Bridge of Narahenpita- Nugegoda Road implemented under 07 contract packages. The road rehabilitation works had been commenced on 11 December 2013 and scheduled to be completed by 31 December 2017. However, the Project had completed improvement works of the Bridge and rehabilitation works of 12.77 kilometres of 05 roads as at 31 December 2017. The physical progress on rehabilitation works of Kottawa – Thalagala Road, Kotte - Bope Road and Orugodawatta - Ambatale Road had remained slow at 11.73 per cent, 14.27 per cent and 3.44 per cent respectively against the target progress of 32.89 per cent, 20.17 per cent and 15.36 per cent respectively as at 31 December 2017. The rehabilitation works of 15.06 kilometres of other 03 roads had not been commenced until 31 December 2018.

### **3.3 Contract Administration**

The following observations are made.

- (a) Under the rehabilitation of 3.56 kilometres of Orugodawatta- Ambatale Road, it was designed to widen the Road up to 27 metres with 04 lane. However, action had not been taken to renovate and widen the existing bridges of the Road causing several bottle necks and unsafe road conditions.
- (b) According to the contract agreement, the Interim Payment Certificates exceeding 3 per cent of the cost of the respective contracts need to be submitted for evaluation purposes. However, the contractors involved in rehabilitation works of Kottawa - Thalagala Road, Orugodawatta - Ambathale Road and Kotte - Bope Road had submitted 13 claims with Interim Payment Certificates lower than the values specified in the contract agreements.