

## **Road Network Improvement Priority Road Project - 2 - 2017**

---

The audit of financial statements of the Road Network Improvement Priority Road Project-2 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. This Project implemented under the Loan Facility Agreement No.4500062212011110472 dated 31 March 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the China Development Bank Corporation.

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

According to the Loan Facility Agreement of the Project, then the Ministry of Highways, Ports and Shipping, presently the Ministry of Highways and Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve and rehabilitate 619.72 kilometres of priority roads. As per the Loan Facility Agreement, the estimated total cost of the Project amounted US\$ 556 million equivalent to Rs.61, 438 million and out of that US\$ 500 million equivalent to Rs.55, 250 million was agreed to be provided by the China Development Bank. The Project commenced its activities on 28 June 2011 and scheduled to be completed by 28 June 2014. However, the period of the Loan had been extended up to the date of disbursements over.

### **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 the 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 misstatement 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 the 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 Facility 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 Facility 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, 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 withdrawal applications submitted could be fairly relied upon to support the direct payment in accordance with the requirements specified in the loan Facility Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- (e) the financial covenants laid down in the Loan Facility Agreement had been complied with.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision 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 Facility Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year under review		as at 31 December 2017	
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
CDB	500.00	55,250.00	370.00	2.43	369.01	499.99	64,511.01
GOSL	56.00	6,188.00	200.00	-	47.00	-	7,090.02
RDA- NSB Loan				-	-	-	1,100.29
Sampath Bank Loan				-	1,804.61	-	1,804.61
<b>Total</b>	<b><u>556.00</u></b>	<b><u>61,438.00</u></b>	<b><u>570.00</u></b>	<b><u>2.43</u></b>	<b><u>2,220.62</u></b>	<b><u>499.99</u></b>	<b><u>74,505.93</u></b>

#### 3.2 Physical Progress

The following observations are made.

- (a) According to the Project document, it was planned to rehabilitate 504.90 kilometres of national roads and 85.00 kilometres of provincial roads in Nuwara Eliya and Hambantota districts, construction of 02 flyovers and the widening and reconstruction of 46 bridges on a priority basis to be completed by 20 October 2014. However, the rehabilitation works of 514.10 kilometres of national roads and 105.62 kilometres of provincial roads, construction works of 02 flyovers and reconstruction works of 71 bridges had been completed by 15 May 2015 with delays in 07 months from the scheduled date of completion. Further, the final payments had not been settled up to 31 December 2017, due to an arbitration case filed by the contractor. As a result, the Project had spent additional costs of Rs. 21.91 million and Rs. 12.26 million in 2016 and 2017 respectively on staff remunerations and other administrative activities.
- (b) The rehabilitated sections of Badulla-Karametiya-Andaulpotha Road and Tennekumbura-Rikillagaskada-Ragala Road handed over to the Road Development Authority on 15 September 2014 and 22 June 2015 respectively had been damaged, due to the floods occurred in December 2014 and the new contracts for reconstructions had been awarded at an estimated cost of Rs. 131.91 million out of the proceeds of the Loan. The reconstruction works under the contracts had not been completed even up to 31 December 2017.

### **3.3 Matters in Contentious Nature**

The following observations are made.

- (a) The Road Development Authority had taken action to obtain additional Loans from 02 Local Licensed Specialized Banks to settle the costs arisen on variation orders and arbitration based on the decision of Dispute Adjudicatory Board. However, the arrangement made by the Road Development Authority to settle the loans had not been explained for audit.
- (b) A sum of Rs. 1.7 million had been additionally paid during the year under review to the contractor engaged in rehabilitation of Negambo - Giriulla Road to meet the costs on insurance coverage which are normally included in the original contract value.
- (c) It was observed that the non-current assets procured by the Project at a cost of Rs. 54.60 million had not been handed over to the Road Development Authority even by at 31 December 2017. Further, the Project had not maintained a Register of Fixed Assets to record the assets procured by the Project.