

## **National Highways Sector Project - 2017**

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The audit of financial statements of the National Highways Sector 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 Section 34 of Schedule 6 of the Loan Agreement No. 2217 SRI dated 14 December 2006 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB).

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

According to the Loan Agreement of the Project, then Ministry of Higher Education & Highways and Petroleum Resources presently, the Ministry of Highways and Road Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is the improvement of national highways network efficiency and strengthens road sector institutions. Further, the Project shall,

- (i) improve road sector institutions,
- (ii) upgrade project roads; and
- (iii) develop pilot performance based maintenance contracts.

As per the Loan Agreement, the estimated total cost of the Project amounted to US \$ 208 million equivalent to Rs.21,655 million and out of that, US \$ 150 million equivalent to Rs.15,275 million was agreed to be provided by the Asian Development Bank. Subsequently a Memorandum of Understanding was signed on 15 February 2008 and the Loan Agreement had been amended accordingly on 27 May 2008 to change the scope of the Project. In addition to the above, another Loan Agreement No. 1355P had been signed by the Government of Sri Lanka with OPEC Fund for Economic Development (OFID) on 04 October 2010 to obtain a Loan of US\$ 8 million equivalent to Rs.880 million from the OPEC Fund for Economic Development. A supplementary Loan Agreement No.2767 –SRI had also been signed by the Government of Sri Lanka with the Asian Development Fund on 04 October 2011 to allocate US \$ 85 million equivalent to Rs.9,350 million. However, the financial statements for the activities carried out by the Project under the supplementary Loan Agreement had been furnished separately since 2014. As per the initial Loan Agreement, the Project activities had been commenced on 07 April 2006 and scheduled to be completed by 31 December 2012. The period of the Project had been subsequently extended up to 31 December 2016. However, the activities of the Project had been continued using funds provided by the Government of Sri Lanka and submitted the financial statements for the year ended 31 December 2017 for audit.

### **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 risks 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 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, 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 contribution received,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

## **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,

## 2.2 Comments on Financial Statements

### 2.2.1 Accounting Deficiency

It was observed that the retention money amounting to Rs 31.91 million payable to the contractor as at 31 December 2017 had not been brought to account and shown in the financial statements.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, 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 according to the Loan Agreements		Funds utilized			
	US\$ million	Rs. million	during the year under review		up to	31 December 2017
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	150.00	15,275	-	-	150.00	17,272
OFID	8.00	880	-	-	8.00	928
GOSL	58.00	6,380	-	-	62.07	9,177
	<u>216.00</u>	<u>22,535</u>	=	=	<u>220.07</u>	<u>27,377</u>

### 3.2 Physical Progress

According to the Loan Agreements, the scope of works of the Project consisted with the improvements of road sector institutions, upgrading and widening of 283 kilometres of national highways and developing and implementing performance based road maintenance contracts. The following observations are made thereon.

(a) According to the Project Completion Report, the upgrading and widening works of 244 kilometres of Puttlam – Anuradhapura Road, Udatenna – Mahiyanganaya Road, Nuwaraeliya – Badulla Road, Habarana – Kantale Road and Nugegoda – Homagama Road had been completed in 2016. However, the estimated cost of Rs.18,024 million for upgrading and widening of the above mentioned roads had been increased upto Rs.20,137 million, due to delays ranging from 52 days to 450 days on completion of the works under the contracts.

- (b) Further, it was expected by the Project to maintain 300 kilometres of national roads in 03 districts under performance based road maintenance contracts and out of that the maintenance works of 36 kilometres of Colombo – Ratnapura-Wellawaya-Battecoloa Road and 72 kilometres of Avissawella- Hatton- Nuwaraeliya Road in 03 Executive Engineers’ Offices of the Road Development Authority had been completed at the end of the previous year under the performance based road maintenance contracts.
- (c) The construction works of the building for Highway Secretariat had been completed by the Project and handed over to the Road Development Authority on 18 November 2014. The drastic changes of the scope of the construction works had been made subsequently and as a result, the cost of the construction works had been increased up to Rs.2,506.54 million. However, Certificate of Compliance had not been issued even as at 31 December 2018.

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

The contracts for interior decoration works of the Highways Secretariat Building had been awarded to 19 contractors at an estimated cost of Rs 305.79 million. Out of that, the contracts awarded to 04 contractors for supply and fixing of partitioning and ceiling works, furniture, timber works, interior finishing and flooring works at an estimated cost of Rs 241.60 million had been extended for the period ranging from 147 to 154 days. However the remedial charges amounting to Rs.7.3 million for 02 contractors had been released due to the time extensions.

### **3.4 Closure of the Activities of the Project**

Eventhough the activities of the Project under the upgrading, widening and maintaining of the national roads had been completed and handed over the Highway Secretariat Building to the Road Development Authority in 2016, the necessary instructions had not been issued by the Executing Agency to wind up the Ledger Accounts and prepare the financial statements of the Project accordingly .