

Road Sector Assistance Project -2017

The audit of financial statements of the Road Sector Assistance 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 4.01(b)(i) of Article IV of the Development Credit Agreement No.4138-CE dated 16 January 2006 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Development Credit Agreement, then Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to lower transportation cost through sustainable delivery of an efficient national road system. As per the initial Development Credit Agreement, the estimated total cost of the Project was SDR 69.10 million (US\$ 100 million) equivalent to Rs.10,125 million and the entire amount was agreed to be financed by the International Development Association. Further, an additional allocation of SDR 59.60 million (US\$ 98.10 million) equivalent to Rs.11,579 million had been provided under the First Supplementary Development Credit Agreement of 23 June 2008. The Second Supplementary Development Credit Agreement had been entered on 15 March 2011 and an additional allocation of SDR 63.6 million (US\$ 100 million) equivalent to Rs.11,081 million had been made thereon. Initially, the Project commenced its activities on 16 January 2006 and scheduled to be completed by 31 March 2011. Further, the period of Project had been extended up to 30 June 2015. However, the operations of the Project had been continued and the financial statements for the year ended 31 December 2017 had been prepared and presented 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 Loans, etc.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project, and
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.

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, and
- (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

The consultancy fees amounting to Rs.140 million paid from other Donor Funded Project had been recorded as the cost of this Project.

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 Development Credit Agreements		Allocation made in the Budget Estimates for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA Loan							
4138 CE	100.00	10,125	-	-	-	95.88	9,709
4429 CE	98.10	11,579	-	-	-	92.35	10,912
4906 CE	100.00	11,081	-	-	-	79.38	8,796
GOSL	-	-	11	0.07	10.71	-	7,072
	<u>298.10</u>	<u>32,785</u>	<u>11</u>	<u>0.07</u>	<u>110.71</u>	<u>267.61</u>	<u>36,489</u>

3.2 Physical Progress.

According to the information received, the rehabilitation and maintenance works of 620 kilometres of national roads in 08 Provinces and 635 kilometres of provincial and rural roads under the purview of 03 Provincial Councils and 09 Pradeshiya Sabhas were expected to be implemented by the Project. However, the rehabilitation works of 685 kilometres of national roads and 162 kilometres of provincial and rural roads had been completed as at 30 June 2015.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that a sum of Rs. 733.87 million had been claimed by the contractor involved in rehabilitation works of Ingiriya- Ratnapura Road for the extension of time and costs incurred on prolongation, acceleration and other purposes. In addition to that, a sum of Rs. 841.98 million had been claimed by the contractor for the interest cost. However, no information was made available even as at 31 December 2017 on settlement of liabilities through arbitration process.
- (b) It was observed that the disputes on settlement of payments on rehabilitation and improvement of Galle - Deniyaya Road had been arisen as the Road Development Authority was not agreed with the decision of Dispute Adjudication Board to pay a sum of Rs.67.69 million and US\$ 858,017 to the contractor. The dispute had been referred to the Amicable Settlement Committee and not settled even as at 31 December 2017.

3.4 Issues on closure of the activities of the Project

Eventhough the road rehabilitation and maintenance works implemented by the Project had been completed as at 30 June 2015, necessary instruction had not been issued by the Executing Agency to wind up the operations of the Project and prepare the financial statements accordingly.