

## **Transport Connectivity and Asset Management Project - 2019**

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The audit of the financial statements of the Transport Connectivity and Asset Management Project for the year ended 31 December 2019 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 II, B (3) and 4.09 (b) of the General Condition of the Credit Agreement No. 5788 SRI –LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which consider should be reported to the Parliament appear in this report.

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

According to the Credit Agreement of the Project, the Ministry of Higher Education 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 to strengthen the Road Development Authority's capacity for asset management and to implement a Design- Build-Maintenance contract using an Output and Performance Based Road Contract (OPBRC) format to pilot management principles on the selected road section from Ja-Ela to end of Chilaw town on Peliyagoda – Puttalam Road approximately 58 kilometres. As per the Credit Agreement No.5788, the estimated total cost of the Project was SDR 90.5 million equivalent to US\$ 125 million or Rs.18,125 million and the entire amount was agreed to be financed by the International Development Association. However, according to the Cabinet Decision No. 18/1682/805/051 dated 15 August 2018, the initial scope of the Project had been changed. Accordingly, out of initial loan allocation US\$ 100 million equivalent Rs.14,500 million had been removed from the Project and had been allocated to the Ministry of Provincial Council, Local Government and Sports for improvements of all Provincial roads. Out of the remaining balance, only a sum of US\$ 16 million equivalent Rs.2,320 million had been allocated to continue the activities of the Project and balance amounting US\$ 8.5 million equivalent to Rs.1,232.5 million had been transferred to the Road Maintenance Trust Fund. The Project commenced its activities on 30 June 2016 and restructured on 15 August 2018 and scheduled to be completed by 31 March 2023.

### **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 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 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 Public Sector 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 skepticism 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 the 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 Accounting Deficiencies

The following observations are made.

	<b>Audit Issue</b>	<b>Amount Rs. million</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	In terms of the Para No. 31 of the Sri Lanka Public Sector Accounting Standard No.05, the Exchange rate differences arising on the settlement of monetary items should be recognized in the financial statements of the period in which they arise. However, Exchange loss amounting to Rs.1.96 million arises on the Central Bank Special (Dollar) account had been offset against the proceed of the Loan without disclosing as cost of the Project.	1.96	Misapplication of accounting standard	Action will be taken to rectify this type of error in future, when preparing of financial statements.	Action should be taken to comply with the Sri Lanka Public Sector Accounting Standard No.05.
(b)	Although the total cost of the Project was US\$ 16 million, the Project allowances for the staffs had been calculated by considering the total cost of 03 Projects of the PMU and had been charged only to the Transport Connectivity and Assets Management Project without segregating them to the other Projects in the PMU.	1.24	Overstated the staff cost of the Project.	The Secretary of the Ministry of Highways and Road Development and Petroleum Resources Development decided to include 3 projects under the PMU and renaming the PMU as "Network Connectivity Improvement and Asset Management Project.	Action should be taken to segregate the Project allowances among the 03 Projects.

### 3. Physical Performance

#### 3.1 Physical and Financial Progress of the Activities of the Project

No	Component /Sub Component	As at 31 December 2019				Delay/ Audit Issue	Impact	Response of the Management
		Expected physical performance	Performance achieved	Expected financial performance Rs. million	Financial progress achieved			
(a)	Asset Management Support	10%	Not reported	100	Not reported	The Project had planned to spend Rs.376 million during the year to achieve 5 main activities in the action plan 2019. However, the Project had not taken action to achieve the main objectives given in the action plan and had spent Rs.43.67 million for the maintenance and repair of Sri Lanka Road Access Management System (SLRAMS) and Multi Function Network Survey Vehicle (MFNSV) of the Road Development Authority, Rs.2.14 million to the local and foreign training and expenditure on PMU Rs.33.39 million. Further, it was observed	Possibility to complete the scope of works of the Project with delay and increase the cost of the Project.	Due to the change in the scope of Project 2018, there were actual costs of 79.21 million out of which 33.39 million had been spent for recurrent expenditure, 43.67 million for Asset Management Unit and only 2.14 million had been spent on local and foreign training in 2019. The reason for not achieving certain activities in the procurement plan is explained.
(b)	Capacity Building and Training.	3%	Not reported	8	Not reported			
(c)	Incremental Operating cost.	28%	3%	82	Not reported			
(d)	Purchasing Equipment.	80%	Not reported	174	Not reported			
(e)	Consultancy	3%	Not report	12	Not reported			

that the estimated value of Rs.135.8 million related to 9 items in the procurement plan, only 3 per cent progress had been achieved by the Project as at 31 December 2019.

**Auditor’s Recommendation** Activities of the Asset Management Project should be clearly identified and prepare relevant plan to achieve the objectives within the target period.

**3.2 Underutilized Resources**

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor’s Recommendations
(a) Out of the total work-in-progress amounting to Rs.169.78 million, an amounting to Rs.90.57 million had only been incurred by the Project for the activities such as Conceptual Designs, Topography Survey, Institute for Development Research Consultancy (IDRC) User satisfaction survey, Research Development Consultancy – Social Impact Report/ Resettlement Action Plan (RDC-SIA/RAP), Land acquisition survey and cost of PMU etc. However, payment made to above activities had become fruitless, due the construction of the initial road of Ja-Ela to Chilaw town on Peliyagoda – Puttalam Road abounded as a result of restructuring of scope of works of the Project on 15 August 2018 by the Government decision.	It was observed that, a sum of Rs.90.57 million incurred by the Project for the preliminary work of the Ja-Ela to chilaw road had become fruitless, due to abandoning the contract and restructures of the Project on 15 August 2018.	Comment accepted. However, the bidding documents prepared for the OPBRC contract format by the TCAMP, for the first time in the country, have been used for the road rehabilitation contracts of the I Road project.	Action should be taken to mitigate the loss.

- (b) The treasury had allocated a sum Rs.312 million and Rs.60 million to the Project for the utilization of foreign loan and GOSL expenditure for the year 2019. However, the Project had utilized only Rs.52.99 million representing 16.98 per cent of foreign loan allocation and Rs.16.93 million representing 28.22 per cent from the GOSL allocation as at 31 December 2019. Further it is observed that, a sum of Rs.195 million in the Special (Dollar) Account was remained unspent over 01 year, due to slow progress of the activities of the Project.
- Proceeds of the loan amounting to Rs.195 million had remained idle over 01 year.
- The balance amount of 195 million in the special (Dollar) Account was remained unspent, due to change of scope, resulted from restructuring of the project,
- The activities of the Project should be properly planned to increase the efficiency of utilization fund.

### 3.3 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>The Project had obtained the cadre approvals from the Department of Management Service on 10 April 2015, 16 November 2017, 25 July 2019 to recruit 49 staffs for the Project activities. However, 14 staffs were made available in the Project and 35 vacancies including 1 procurement Specialist, 4 Senior Engineers, 2 Engineers, 2 Transport System Analysis, 2 ICT Officers, 1 Senior ICT Officer, 1 GIT Analyst, 6 Field officers and 9 Image Analyst were remained unfilled as at 31 December 2019 without being action taken to fill the vacancies.</p>	<p>Possible delay in activities of the Project.</p>	<p>The PMU requested from the Secretary of the Ministry of Higher Education and Highways to initiate action to obtain cadre approval on 15 March 2018 and this request was forwarded to the MSD on 26 October 2018, 07 months after the date of request. The Secretary of the Ministry of Road and Highways delayed sending cadre proposal to MSD, until restructuring is finalized.</p>	<p>Action need to be taken to recruit qualified staff for the Project to commence the activities of the Project.</p>