

Transport Connectivity and Asset Management Project - 2020

The audit of financial statements of the Transport Connectivity And Asset Management Project for the year ended 31 December 2020 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-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 I consider should be reported to 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 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 (DBM) 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 Km. As per the Development 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(IDA). 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 the 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. However, the total loan allocation for the Project had been again reduced to US\$ 9 million equivalent Rs.1,305 million due to transferring of US\$ 7 million to COVID 19 response as per the request made by the Government of Sri Lanka on 6 May 2020. The Project commenced its activities on 30 June 2016 and restructured on 15 August 2018 and scheduled to be completed by 30 June 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 2020 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 Non-Compliance with Rules and Regulations

Reference to the Rules and Regulations -----	Non-compliance -----	Management Response -----	Auditor's Recommendation -----
Section 3.2.1 of the Management Services Circular No 01/2019 dated 15 March 2019	Although the initial total cost of the Project of US\$ 125 million had been reduced to US\$ 9 million since 30 June 2020, the allowances of the Project staffs had not been adjusted to the revised cost of the Project. As a result, a sum of Rs.145,000 had been over paid to the Project staffs contrary to the Section 3.2.1 of the Management Services Circular No 01/2019 dated 15 March 2019.	Agreed with the details mentioned in the 01 st sentence. There is no requirement in the MSD circular to reduce salaries & allowances of the PMU staff due to reduction of scope of work & Cost of the Project.	Action need to be taken to comply with the Management Services Circular.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Components -----	As at 31 December 2020 -----		Audit Issues -----	Reasons for delay -----
	Expected physical performance -----	Performance achieved -----		
	Units/ percentage	Units/ percentage		
1.Operationalizing Asset Management Support and Unit related capacity Building.	13.05	8.22	Physical Progress of the activity is behind the target by 4.83%.	Due to Covid – pandemic situation and delay in recruitment of staffs.
2.Capacity Building, Training and Consultancies, Road Safety.	7.76	3.20	Physical Progress of the activity is behind the target by 4.56%.	Due to Covid – pandemic situation and delay in recruitment of staffs.

3. Equipment	3.23	1.70	Physical Progress of the activity is behind the target by 1.53%.	Due to Covid – pandemic situation and delay in recruitment of staffs.
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Response of the Management The Overall Physical Progress of the project as at 31 December 2020 is 19.77 percent and the planned progress is 24.05 percent. The project accepts that the overall Physical Progress of the Project is behind the target by 4.28 percent as at 31 December 2020.

Auditor’s Recommendation Action should be taken to expedite the activities of the Project.

3.2 Idle/ Unutilized/ Underutilized Resources

Audit Issues -----	Management Responses -----	Auditor’s Recommendations -----
(a) Out of the total work- in- progress of Rs.233.35 million, a sum of Rs. 90.57 million was done on the initial projects activities for the Peliyagoda-Puttalam road from Chilaw in Ja-Ela section. As per the decision of the government above section had been abandoned therefore those expenditures were become fruitless.	The Cabinet Paper on restructuring was approved on August 15, 2018 and the scope of the project was amended. Improvement of Peliyagoda/Puttalam Road, and compensation for lands and buildings was completely removed from the scope of TCAMP.	Action should be taken to mitigate the loss.
(b) Although a sum of US\$ 1.5 million equivalent to Rs.236.12 million received to the Special (Dollar) account in 2018, only Rs.137.4 million representing 58.19 per cent had been utilized by the Project after 2 years and the balance amounting to Rs.137.07 million including revaluation gain was remain unspent in the Special (Dollar) Account.	Due to the change in the scope of project 2020, there were actual costs of 137.4 million (58.19%) Therefore, the balance amount of 137.07 million in the special dollar account was remained unspent including revaluation gain.	The activities of the Project should properly planned and should expedite to complete them before expiration of loan.

3.3 Contract Administration

Audit Issue -----	Response of the Management -----	Auditor’s Recommendation -----
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According to the procurement plan, the Project had planned to purchase sky lift, Two (FWD) Network survey vehicle and Road milling machine during the year 2020. However, planned procurement activities of the Project could not be completed, due import restrictions enforced by the Government of Sri Lanka and delay in obtain approval from the Department of National Budget.

The project has taken all possible actions/efforts required for acquiring the assets. However, the approval of the Department of National Budget had not been received.

Action should be taken to accelerate the delayed activities of the Project.

3.4 Issues Related to Human Resources Management

Cadre Position -----	No of Posts		Response of the Management -----	Auditor's Recommendation -----
	Approved -----	Actual As at 31 December 2020 -----		
Procurement Specialist,	01	-	01	There are 03 vacancies unfiled for the posts of Procurement Specialist, Project Engineer and GIS Analyst. The activities of the Project need to be supervise closely before expiration of loan on 31 March 2023. Hence, action should be taken to recruit required staffs and complete the scope of works of the Project on scheduled dates.
Engineers PS-4	02	01	01	
GIT Analyst	01	-	01	