

Road Sector Assistance Project -2020

The audit of financial statements of the Road Sector Assistance 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 4.01(b) 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. 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 Development Credit Agreement, then the Ministry of Higher Education and Highways, presently the Ministry of Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is 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\$ 98.1 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 2020 had been prepared and presented for audit.

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. Physical Performance

2.1 Physical Progress of the Activities of the Project

Out of rehabilitation and maintenance work of 620 km of national roads, 685 km had been completed by the Project as at closing date of the Project. However, out of 635 km of provincial and rural roads, only 162 km had been completed as at end of the Project. Further, it was observed that the rehabilitation and maintenance work of 11 roads had been completed with delays over 01 year whilst rehabilitation and maintenance works of other 05 roads had been delayed over 200 days.

2.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Although the Loan Agreement was entered into on 16 January 2006 and scheduled to be completed on 31 March 2011 initially. Subsequently, it was extended by 10 years upto 31 December 2016 and another four years had elapsed from the extended date as at 31 December 2020. However, the project activities had not been completed and submit the wind up accounts by the Project.	No specific instruction had been issued by the executing agency, to hand over of the asset of the Project to the respective implementing agencies and prepare the financial statements for winding up purposes.	Action needs to be taken at the early stage to prepared windup financial statements immediately after activities of the Project is over.

2.3 Extraneous Activities/Payments made out of the Project objectives

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) The contract for rehabilitation and improvement of the Ingiriya to Ratnapura road was signed on 21 March 2006 and scheduled to be completed by 31 May 2007. However, the completion of the contract was delayed until 27 November 2009. This was due to the fact that the project activities were not properly identified and delay in land acquisition. As a result of delay, contractor had been paid Rs.1150 million including VAT and delay interest exceeding the claimed of Rs. 734 million made by the contractor with the approval of the Cabinet of Ministers given on 16 October 2019.	The main dispute was the Contractor's entitlement for recovery his overhead during the delayed period.	Investigate the reasons and parties responsible for the additional cost and formulate strategies to avoid such additional costs in future.

- (b) Rehabilitation work of 68 km of Galle Deniyaya Road was commenced in 2006. Although the takeover certificate was issued on 05 January 2010, the dispute over the settlement of the contractor's rights had been delayed more than 10 years. As a result of delay in getting decisions by the responsible officials in the arbitration process, the contractor had been paid Rs. 330 million over the Rs.181 million claim made by the contractor.
- In the cabinet meeting held on 05.07.2021, the cabinet has approved to contract china Overseas Engineering Company a sum of Rs.67,686,388.69 and US\$ 858,017.28 for the work in addition to the 1,918,215,256.00.
- Activities of the Project need to be planned properly and decision should be taken early to settle disputes to minimize the interest cost to the Project.

