

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) – 2020

The audit of financial statements of the Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) for the year ended 31 December 2020 was carried out under my direction in the pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 4.2 of schedule 01 of the Financing Agreement No.5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA). 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 Amended Financing Agreement of the Transport Connectivity and Asset Management Project, then the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments presently State Ministry of Provincial Councils and Local Government Affairs is the Executing agency and Provincial Road Authorities in all provinces are the implementing agencies for the revised Component 02. The objectives of the project are Strengthen the capacity of the Road Development Authority of asset management and improve access and management framework for Provincial roads. As per Financing Agreement of the project, the total estimated cost of the Project was US\$ 125 million equivalent to Rs. 21,875 million. As per amendment to the Financing Agreement of the project, the estimated total cost of the revised Component 02 was US\$ 109 million equivalent to Rs. 19,075 million. The component commenced its activities on 02 May 2019 and scheduled to be completed by 31 March 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2 of my report, 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 Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 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 scepticism 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 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

No	Accounting Deficiencies	Amount Rs.million	Responses of the Management	Auditor's Recommendations
(a)	Eventhough a sum of Rs. 600.45 million had been shown as advances paid to the contractors under current assets in the statement of financial position, it had included Rs.61.34 million which had not been paid as advances to the contractors. As a result, advances to contractors account had been overstated by that amount.	61.34	An amount of Rs.47.61 million payables to contractors had been included in the sum of Rs.600.45 million of advances paid to contractors as at 31 December 2020 under the current assets.	Action should be taken to rectify the financial statements.
(b)	Although the actual amount paid Rs.47.84 million for consultancy services during the year had been erroneously shown as Rs.53.09 million in the cash flow statement.	5.25	The instructions were provided to relevant officers for preparing cash flow statement correctly.	-Do-

2.2 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non- Compliances	Responses of the Management	Auditor's Recommendations
(a)	Cabinet Decision No.18/1682/805/0 51 and dated on 15 August 2018.	None of the – Ministerial Staff had been appointed to Project Management Unit as instructed by the Cabinet Decision.	Absorption of suitable Ministerial Staff for the Project Management Unit is not necessary requirement.	Need to comply with the Cabinet Decision.
(b)	Management Service Circular No 1/2019 of 05 March 2019.	The Meeting of the Project Steering Committees required to be held once in 02 months. However, only two meetings had been held during the year under review.	No comments.	The meetings of the Project Steering Committees required to be held regularly.

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| (c) | Department of Management Audit Circular No 01/2019 of 12 January 2019 | The Meeting of the Audit and Management Committee meeting required to be held four in the year. However, one meeting had been held during the year under review. | No comment. | The meetings of the Audit and Management Committees required to be held regularly. |
| (d) | Public Administration Circular No.09/2009 of 16 April 2009 Para. 03 | Finger scanners should be used to confirm the arrival and participate. 13 officers and 4 individual consultants attached to the Project Management Unit had not used the proper method to confirm the attendance. | Necessary arrangements will be taken | Necessary action should be taken to comply with circular instructions. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	It was planned to awarded 67 roads length of 302km in 18 packages for Rs. 7,692.30 million in previous year , but only 8 packages were awarded in that year. The remaining 10 packages had been awarded in the year under review. However, six contract packages from that did not have any physical progress during the year.	The time taken to review the price variations by the Ministerial Procurement Committee.	Action should be taken to expedite procurement process and maintain good physical progress of the construction.
(b)	As per restructuring paper, Project had to identify roads and prepare detail project reports at cost Rs.7,769.86 million for Phase -2 during the year under reviewed. However, no any progress achieved.	No comments.	Action should be taken to adhere with the project plan.

3.2 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Eventhough individual consultants required to be appointed as per the Guidelines for selection and employment of consultant-2007, 9 Resident Engineers Cum Contract Management Consultants, 3 Contract management & Monitoring Consultants, 2 Material Engineers and Consultants for Evaluating (EIRR) had been appointed as individual consultants of the Project without following requirements stipulated in the above Guidelines.	No comments	Action should be taken to adhere with the Guidelines.

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| (b) | The works had not been mentioned certainly in the monthly work plan and work done report had not been compared with monthly work plan and actions had not been taken difference between monthly work plan and work done report. | No comments | Action should be taken to get the best work plan and compare the work plan and work done during the month when making payments. |
| (c) | It had been observed that Engineer Estimates of seven packages had been increased due to accepting bid price as reflect the current market rate. | No comments. | Action should be taken to make use of real estimate. |

3.3 System and Controls

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Annual Budget & Work Plan for year 2020 had not been completed to obtain approval from Steering Committee.	Work plan and budget could not be submitted to the Steering Committee due to Covid-19 pandemic situation.	Action should be taken to prepare & obtain approval for Budget and Action Plan from the Steering Committee.
(b)	Financial Management System of the project had not been introduced although Financial Manager (PS -3) for the Project Management Unit and nine Accountants (PS-4) had been appointed as well.	Procurement process is being carried out to purchase software called ' Quick Book '.	Action should be taken to introduce Financial Management System as per the Financing Agreement.
(c)	Project operation manual had not been prepared yet.	Seeking approval from National Steering Committee.	Action should be taken prepare and approve a Project Operation Manual according to the Loan Agreement.