

## **OPEC Funded Road Network Development Project - 2021**

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The audit of financial statements of the OPEC Funded Road Network Development Project for the year ended 31 December 2021 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. 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**

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According to the Loan Agreement, then Ministry of Ports, Shipping and Highways, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to constitute as an integral part of Sri Lanka's Development Policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 62.46 million equivalent to Rs.7,121.32 million and out of that US\$ 40 million equivalent to Rs.4,560 million was agreed to be financed by OPEC Fund for International Development and the balance of US\$ 22.46 million equivalent to Rs.2,561.32 million was required to be provided by the Government of Sri Lanka. The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended up to 31 December 2022.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified Opinion**

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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**

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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

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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 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

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### 2.1 Accounting Deficiencies

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No	Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a)	As per the Sri Lanka Public Sector Accounting Standards No.08, delayed interest for 2,716 plots of land and compensation for 2,271 plots of land had not been identified to make a provision on land acquisition as at 31 December 2021.	Agreed. Action will be taken to provide adequate provision for interest payments in year 2022.	Provisions should be made according to the Sri Lanka Public Sector Accounting Standard No.08.

- (b) According to the financial statements and the records maintained by the General Treasury, total expenditure from the proceeds of the loan amounting Rs.75.5 million had been incurred during the year under review. However, the corresponding amount had been shown as Rs.52.7 million in records of External Resources Department. In addition to that Rs. 23 million had been shown as disburseable foreign aid instead of being recorded under the loan in the financial statements as at 31 December 2021. Further, the differences had not been reconciled.
- It is noted to reconcile External Resources Department Report and Report of the Department of State Accounts from 2022 onwards.
- Action should be taken to reconcile the balances.

## 2.2 Non-compliance with Law, Rule and Regulation

Reference to the Law, Rule and Regulation	Audit Issues	Responses of the Management	Auditor's Recommendation
Section 9.3 of the Management Services Circular No.01/2019 dated 05 March 2019	The Steering Committee of the Project had not been met during the year 2021 in accordance with the circular.	Agreed.	All Steering Committees should be implemented as per circular instruction.

## 3. Physical Performance

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

Audit Issue	Response of the Management	Auditor's Recommendation
After completion of 04 construction contracts in year 2016, the rehabilitation of A005 - Peradeniya - Badulla Chenkaladi Road Section from 0+420 to 3+050 was commenced on 09 June 2017 and was expected to be completed on 08 June 2018. Further, the Project Management Unit had incurred total cost of Rs.126.53 million up to 31 December 2021 and out of that Rs.58.23 million expenditure were spent for the period from January 2017 to December 2021. However, it had not been completed even as at 31 December 2021 due to poor project management and had to incurred additional project cost.	The contractor has achieved 95.2 per cent physical progress as at 31.12.2021.	Action should be taken to speed up the balance rehabilitation works.

### 3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Eventhough further extension of time had not been granted after the first extension of time, Rs. 354 million had been paid by Interim Payment Certificate including Rs.85 million for Preliminary and General pay items up to 31 December 2021, due to poor progress of the contractor. Further, it was observed that the Project had not been taken any action to charge maximum delay damages amounting of Rs.40.77 million from the contractor as per Sub Clause 8.7 of General Conditions of Contract.	When issue the termination notice the total recovered delay damages was Rs.27 million. However, Contractor has agreed to complete the project by 06 months and requested to release recovered delay damages. Accordingly, Chairman, RDA has granted approval to release the same.	Action should be taken to adhere the Conditions of the Contract to minimize the losses.
(b)	The Project Director had sent the “prior notice of termination of contract” to the Chairman of Road Development Authority on 18 June 2019, due to poor progress of the Project. However, considering the contractor’s request for carrying out constructions with a facilitator, the rehabilitation works had been recommenced on 01 July 2019. Further, the consultant had been recommended to charge liquidity damages of Rs.27 million from the Interim Payment Certificate of May 2019 as no significant progress achieved. However, without considering the Sub Clause 8.7 of General Conditions of Contract, the employer had been decided not to charge the said amount as delay damages with the approval of Chairman of Road Development Authority on 20 August 2019. It was further observed that the Project had provided an additional financial facilities to the contractor and it had not been taken necessary action to charge delay damages even at the end of the project.	Agreed.	Action should be taken to adhere the Conditions of the Contract to minimize the losses.

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| <p>(c) The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance security bonds at cost of the respective contractor. Accordingly, a sum of Rs.1 million had been paid additionally to the contractors as lump sum to reimburse the cost of performance security bonds obtained by the contractor of Peradeniya - Badulla Chenkaladi Road.</p> | <p>If the contractor is allowed to claim as a separate item such as lump sum, the Employer can negotiate with the contractor and evaluate the actual cost incurred for obtain the Performance Bond, Insurance, Advance Bond etc. avoiding the total contract price increased.</p> | <p>The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee before issuing the bidding documents.</p> |
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### 3.3 Issue on Land Acquisition

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>Eventhough, the land acquisition process started in the year 2013 and incentives aggregating Rs.1.82 million had been paid to the officers of Ministry of Survey Department, Valuation Department and Divisional Secretariat office to expedite and complete the land activities within 26 weeks, the land acquisition process is still in progress.</p>	<p>There is a delay on land acquisition, due to various reasons.</p>	<p>Action should be taken to speed up the land acquisition process.</p>
(b)	<p>According to the information received 2,959 plots of lands were expected to be acquired by the Project. Out of that Rs. 244.5 million had been paid as compensation for 688 plots of land and Rs.31.51 million had been paid as delayed interest only for 165 plots of land as at 31 December 2021. Further, only 146 plots of land had been registered under Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even as at 31 December 2021.</p>	<p>Agreed.</p>	<p>Action should be taken to speed up the land acquisition process.</p>