

Saudi Funded Road Network Development Project - 2021

The audit of financial statements of the Saudi 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 the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports 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 objective of the Project is to rehabilitate and improve 131.50 km of 06 road sections in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 81.75 million equivalent to Rs.10,628 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by Saudi Fund for Development. The Project had commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020. However, the date of completion of the activities of the Project had been extended up to 09 April 2022.

1.3 Qualified Opinion

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

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 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	Responses of the Management	Auditor's Recommendations
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		Rs. million		
(a)	Eventhough the rehabilitation and improvement to Kandy-Jaffna road section including Naula town had been completed on 30 January 2021, it had not been transferred to the completed work from the work in progress as at 31 December 2021.	566.03	Action will be taken to transfer the work-in-progress balance of the project to Civil Works in year 2022.	Road costs should be capitalized in accordance with the Sri Lanka Public Sector Accounting Standard 01.

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| (b) | According to the financial statements and the records maintained by the General Treasury, total expenditure from the proceeds of the Loan amounting to Rs.480 million had been incurred during the year under review. However, the corresponding amount had been shown as Rs.201 million in the records of External Resources Department. In addition to that, an amount of Rs.83 million had been shown as disbursable foreign aid instead of being recorded under the loan in the financial statements as at 31 December 2021. Therefore, utilization of the loan proceeds had not been properly accounted in the financial statements as at 31 December 2021. | 279 | It is noted to reconcile ERD Report and Report of the Department of State Accounts from 2022 onwards. | Need to discuss with relevant parties and should be reconciled the differences. |
| (c) | As per Sri Lanka Public Sector Accounting Standards No 08, the delayed interest for 1,280 plots of lands and compensation for 1,124 plots of lands 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 as per Sri Lanka Public Sector Accounting Standards No 08. |

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Component	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Rehabilitation and Improvement of Roads	Construction works of the rehabilitation and improvement of Kandy-Jaffna road including Naula Town had been completed on 04 December 2020 as per taking over certificate. However, the compensation for the land acquisition had not been paid for any plots of land even up to 31 December 2021.	Agreed.	Action should be taken to speed up the land acquisition process.
(b)	Rehabilitation and Improvement of Bridges	(i) The construction works of the widening of the Bridge Number 6/2 on Orugodawatta – Ambathale had been commenced on 13 January 2020 and schedule to be completed on 13 March 2021. However, only 53 per cent physical progress had been	Agreed.	Action should be taken to speed up the balance rehabilitation works and adhere to the conditions of the cost to minimize the

achieved as at 31 December 2021. Although the original completion date had been expired and extension of time had not been requested by the contractor, the project had not been taken necessary action to charge delay damages as per the General Condition of contract.

cost.

- (ii) The construction works of the widening of the Bridge Number 6/1 on Orugodawatta – Ambathale Road had been commenced on 07 September 2019 and schedule to be completed on 07 December 2020. Though the bridge had been completed on 15 December 2021 as per the handing over certificate, it mentioned as only 96.4 per cent of physical progress had been achieved as per the progress report for the month of December 2021. Further, contrary to Sub Clause 10.1 of the General Conditions of Contract, main outstanding works such as all surfacing works, interlock and paving, placing of slabs on bridge foot walk, street lighting had not been completed at the time of handing over the bridge. However, work program for the completion of balance work had not been made available for the audit.
- Agreed. Due to unresolved issues related to the water board, the project director was decided to take over the Bridge to minimize the compensation related to the extension of time.
- Necessary action should be taken to resolve all the utility arrangements before commence the road/bridge rehabilitation works.
- (iii) The construction works of the widening of the Bridge Number 4/3 on Orugodawatta – Ambathale Road had been commenced on 07 September 2019 and schedule to be completed on 07 December 2020. Though the bridge had been completed on 26 October 2021 as per the handing over certificate, it mentioned as only 99.8 per cent of physical progress had been achieved as per the progress report for the month of December 2021. Further,
- Agreed. Until water board finishes their new pipeline laying, main outstanding works not possible to be attended.
- Necessary action should be taken to resolve all the utility arrangements before commence the road/bridge rehabilitation works.

contrary to Sub Clause 10.1 of the General Conditions of Contract, main outstanding works such as all painting works, Gabion wall construction, cleaning and grinding correction Bridge back side wall and paving constructing works had not been completed at the time of handing over the bridge. However, work program for the completion of balance work had not been made available for the audit.

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	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. Accordingly, a sum of Rs. 2.79 million had been paid additionally to 04 contractors to reimburse the cost of performance security bonds obtained by the contractors.	The reason behind the above concept is, if the contractor does not allow to claim the cost of Performance Bond separately, he has an opportunity to include in the rates which makes the rates abnormally high and the total cost of contract would increase.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.
(b)	Though the land acquisition processes commenced in the year 2012, the land acquisition process is still in progress. It was observed that an amount of Rs.153.7 million had been paid as compensation for 238 plots of land and Rs.15.05 million as delayed interest for 82 plots of land as at 31 December 2021. Further, the Project had not been registered any plots of land under Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even as at 31 December 2021.	Agreed.	Prompt action should be taken to settle the compensation to avoid additional costs thereon and accelerate the land acquisition process.