

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) - 2022

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 2022 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 State Ministry of Provincial Councils and Local Government presently Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments 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 Project commenced its activities on 02 May 2019 and scheduled to be completed by 31 March 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 2022, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 section of 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 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 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The Financial Regulations 756 and 757 of the Democratic Socialist Republic of Sri Lanka	Annual Boards of Survey had not been conducted for the year under review	No comments	Boards of survey should be conducted in terms of Financial Regulations.
(b)	Circular No.PS/SP/SB/Circular/06/2019 dated 19 December 2019	(i) Even though approval had been granted by the Letter No. DMS/D/7777/TCAMP dated 30 March 2019 of the Department of the Management Services for the staff of the Provincial Projects Implementing Units and Provincial Projects Consultancy Services Units, contrary to that a sum of Rs.30 million had been paid under variations to contract for 07 posts in Provincial Projects Consultancy Services Units.	The Department of the Management Services had approved a limited number of staff for the said project. However, as a large number of employees is necessary to execute such a project, service of these employees has been obtained.	-Do-
		(ii)A sum of Rs.405,150 had been paid under variations of WP 03 contract Package to a Management Assistant of the Centre of Excellence, Ratmalana, without approval of the Department of Management Services.	A Management Assistant has been deployed in the service of the office until the approval of the Department of the Management Services is received.	-Do-
(c)	Procurement Guidelines (2006) (i) Paragraph 4.4	• Even though it had been decided to select Consultants on direct method for the posts of Payment Design Consultant and Asset Management Consultant in the Ratmalana	The officer selected to the post of Consultant has fulfilled qualifications and from the instance in which the application was	Procurement Guidelines should be Followed.

Training Institute, action had been taken to select Consultants on discretion without transparency.

submitted to the Procurement Committee, the party connected to the said officer withdrew from the Procurement Committee.

- A financial loss of Rs.912,545 had occurred due to failure in taking action to purchase goods for the Ratmalana Training Institute from the institution which submitted the minimum substantial bid complied with specifications.

Action has been taken in compliance with World Bank Procurement Rules.

-Do-

(ii) Paragraph 8.13.1

A sum of Rs.203 million representing 25 per cent had been paid as contract variations of the total contingency provision up to 30 September 2022 for incurring additional expenditure such as payments for the staff, providing vehicles for the staff including the Project Director and Deputy Project Director, in circumstances where the employer is empowered to use contract variations to change the form, quality and quantity of project works.

As calling tenders for project duties was unsuccessful, obtaining vehicles through contract packages by informing the World Bank.

-Do-

(d) Paragraph 8.13.4

When contingency provision is exceeded, contract variation orders should be submitted for approval according to level of authority. However, a sum of Rs.229 million had been paid by 30 September 2022 exceeding the contingency provision of the packages.

In making payments exceeding the limits, obtaining frequent approval of the Chief Accounting Officer is inconvenient. However, relevant approval will be obtained in cases where the contractual amount is exceeded.

-Do-

(e) Guidelines for Selection and Employment of Consultants Sri Lanka (August 2007)

(i) Paragraph 2.5

All the technical proposals received should be evaluated independently by all the members of the Consultancy Procurement Committee except its' chairman and should be marked on work sheets prepared previously. After completing the independent evaluation by the members, the discrepancies received through the evaluation should be reviewed by the chairman of the procurement committee and discussions should be held collectively with all members and should reach to a common consent to reduce those discrepancies.

However, without proceeding so, consultants had been selected through an interview held by an interview panel.

A subcommittee had been appointed to further check the qualifications and experience.

Guidelines for Selection of Consultants should be Followed.

(ii) Paragraph 2.6.2

Ministry Procurement Committee had not been appointed properly when recruiting instructors for the Ratmalana training center, and the composition of the procurement committee had not been prepared to suit the procurement entity.

A subcommittee had been appointed to further check the qualifications and experience.

-Do-

(f) The Department of Management Services circular No. 1/2019 dated 05 March 2019.

Although National Operations Committee Meetings should be held once in every 02 months, only 03 meetings have been held during the year under review.

Answers have not been submitted.

Project Operations Committees should be held systematically.

- (g) The Department of Management Audit circular No. 01/2019 dated 12 January 2019. Although four Management Audit Meetings should be held during the year, only three meetings have been held during the year under review. Answers have not been submitted. Audit and Management Committee should be held systematically.

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Even though the contract period of 18 contracts presently implemented out of 26 contract packages had been extended by 162 to 597 days from the due date of completion, action had not been taken to complete even by 31 December 2022.	A progress of 75 percent has been achieved.	Action should be taken to expedite the project.
(b)	According to the agreed plan included in the restructuring document, 17 out of the 18 contract packages of Stage 1 and Stage 11 of Phase I had been awarded with a delay and the construction of those packages had not been completed on the scheduled date.	It was not possible to award the contracts on the scheduled date due to the issues such as the prices offered by the contractors were high, Presidential Election and the transfer of the officers.	-Do-

3.2 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Approval had been given on the staff of the provincial project implementing units and provincial project consultancy service units through the Letter No. DMS/D/7777/TCAMP of the Department of Management Services dated 30 March 2019. Contrary to the approval so granted, a sum of Rs.80 million had been paid with respect to 05 posts under an item in the BOQ of contract bills.	The Department of Management Services had approved employing a limited staff though, a large number of employees were required in order to implement such a project. As such, service of those employees was obtained.	Action should be taken in accordance with the Circulars.

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| <p>(b) In excess of the agreed value (BOQ) as per the contract agreement for providing vehicles to the Chief Residential Engineer, Residential Engineer and the Assistant Residential Engineer, a sum of Rs.2 million had been calculated and paid according to the revised value for the total period from the beginning of the contract up to 31 March 2022 as the entitlement under Section 20.1 of the contract agreement in the bill No.15 (IPC) of the NWP 03 Package.</p> | <p>Following the consideration regarding the contractor's request made under the agreement, the payment has been made after being confirmed the relevant entitlement.</p> | <p>Action should be taken in accordance with the agreement.</p> |
| <p>(c) Even though any indication regarding the provision of vehicle facilities or allocation of vehicles had not been included in the price proposals of the applicants and the procurement advertisement in the selection of consultants of the Rathmalana Training Centre, a condition to the effect that a vehicle would be provided was included in the relevant agreements. Accordingly, action had been taken to provide them with the vehicles through the road contractors of the North Western Provincial Council.</p> | <p>Although it was not included in the request for proposals, necessary facilities are being provided adhering to a procedure continued for over a period of 20 years.</p> | <p>The project should take measures to introduce an internal control system.</p> |
| <p>(d) The consultant recruited for the Assets Management Consultant of the Rathmalana Training Centre had not terminated the service in accordance with the agreement and the duties to be performed during that period had also not been performed. Accordingly, the expected progress during the period of service had not been achieved.
Since the Assess Management Unit, which should have already been established, has not been established for far, the remuneration of Rs.3 million paid to the above consultant had been a fruitless expenditure.</p> | <p>The achievement of the expected progress was delayed due to the prevailing condition in the country and despite not being established another unit, the collection of necessary data for the road assets management has already been initiated.</p> | <p>Assets should be used effectively.</p> |

3.3 Observations made on site visits

(a) Central Province –Godamunna Kithulpe Road

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	Although a revised work programme should be submitted by the Contractor and approved by the Consultant engineer in cases where the contract deviates from the work plan, as per the condition no 8.3 of the contract agreement, no action was taken place to approve such a revised work programme.	After considering contractor's request a contract period had been extended until 22 nd June 2022 & revised work programme had been submitted by the contractor & approved by the consultant engineer. Contractor was informed in written as he would be charged for delays in completion contract.	Action should be taken to work according to the work plan.
(ii)	Although Asphalt mix analysis test was failed, Rs.5 million had been paid for 50mm thick asphalt concrete surfacing 16160m ² under the item no 506 (1) b in BOQ	The presence of a very small amount of rock particles in the mixture does not harm its quality and it helps to slightly increase the skid resistance of the surface. Safety is enhanced by the skid resistance of the surface during vehicular traffic.	Quality materials should be used as prescribed.
(iii)	According to the contract agreement a Quality test laboratory should be maintained by the contractor and the approval should be taken from the consultant engineer before using laboratory equipment and calibration of equipment should have been done. However such approval had not been taken & calibration for Concrete compression testing machine & CBR machine had not been done.	Approval for Laboratory & lab equipment was given by resident engineer. Calibration for Concrete compression testing machine& CBR machines were done by a test officer assigned to the RE office. Due to payment delay calibration reports had not been submitted to the contractor. Contractor would submit the report to RE office as soon as they received.	Quality control method should be followed by officials.

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| (vi) | Although laying ABC and asphalt should have been started after shoulder construction, ABC laying for 646 metres and asphalt laying for 770 metres had been completed before shoulder construction. | As the practice in Sri Lanka, one way of shoulder construction is after laying ABC on narrow roads and another is shoulder construction is done before applying ABC. In this case, about 250 mm more ABC will be laid on both sides than the prescribed width of the road and no payment will be made for the extra ABC. This stabilizes the ABC/Asphalt of the road by applying a lateral support. It does not cause any direct damage to the quality of the ABC/Asphalt. | Works should be completed according to the standard methods |
| (v) | ABC had been substituted for sub base type 01 on edge widening work. Hence additional amount of Rs.696,018 had been paid to contractor on edge widening work. | Project had been approved to use ABD instead of soil on environmental effect | Work should be completed according to BOQ |

(b) North Western Province – NWP 01/02/03

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	Proper method with feasibility study had not been used to select roads to develop 04 roads among 12 roads in this package had been selected by PRD & 08 other roads had been selected as requested by political authority. However Rs.33.1 million had been spent for maintaining those selected roads during 5 last year period from 2015 to 2020	Maintenance Expenditure from 2015 to 2020 has been sent to the Audit in the Letter of the Provincial Director No. PRDA/1/3/17/22 and Dated on 29 March 2022.	Acceptable method should be used to select roads to develop.
(ii)	Puhuriya – Polgahawela Road As per the estimate Rs.75000 for each, had been estimated for clearing culverts. There had been 22 culverts & out of them many had not been cleared properly. However the amount of Rs.1 million had been paid fruitless.	The road was taken over by the employer in July 2021 and all these culverts were duly cleared and removed muddy by the contractor. However, maintenance of those roads was not included in the 2021 maintenance plan. Furthermore, due to the Covid 19 epidemic of that period, the lack of fund, the lack of priority in road selection	Works should be done according to the standard methods and as prescribed by BOQ within the given time frame.

and the prevailing economic situation in the country in 2022 have made it impossible to maintain so far. In view of the current situation in the country and the priority of receiving the provisions for the rest of this year, hope to carry out maintenance work in the future.

3.4. Extraneous Activities/Payments made out of the Project Objectives

Audit Issue	Management Response	Auditor's Recommendations
A sum of Rs.22.2 million of the provisions of the project had been utilized for the engineers serving in Government service in the Provincial Road Development Authorities and Provincial Road Development Departments to fulfill their professional qualifications.	Committing funds received for the capacity building to obtain the membership of the Sri Lanka Chartered Engineers Council is not incongruous with the project objectives.	Action should be taken to utilized allocation only for the hospitals approved by the loan agreement.

3.5 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Sufficient internal audit process for the project activities had not being carried out for the year under review.	No comments	Internal audit should be functioned properly.
(b)	Control account had not been maintained in the ledger for instructors.	No comments	Books and records should be kept properly updated and submitted to the audit when required.