

## **OPEC Funded Road Network Development Project - 2014**

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The audit of financial statements of the OPEC Funded Road Network Development Project for the year ended 31 December 2014 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 Loan Agreement No. 1452 P dated 08 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka and OPEC Fund for International Development.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Road Network Development Project, then Ministry of Highways Port and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are constituted as an integral part of Sri Lanka's Development Policy Framework and aimed to improve the road network connectivity so as to meet the rapidly growing demands of the transport sector by upgrading 202 kilometres of National Highways 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 was US\$ 62.21 million equivalent to Rs.7,092.77 million and out of that US\$ 40 million equivalent to Rs.4,560 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Non - Compliance with Laws, Rules and Regulations**

The performance security bonds at higher values had not been obtained, as required by the Section 7.9.11(d) of National Procurement Guidelines to mitigate the high risk on unrealistic rates quoted by the contractors selected for the rehabilitation works of Eheliyagoda-Dehiovita Road and Deniyaya-Madampe Road.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year 2014		up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
OFID	40.00	4,560.00	1,842.21	12.88	1,673.91	15.55	2,023.57
GOSL	22.21	2,532.77	24.01	-	25.20	-	49.66
	<b><u>62.21</u></b>	<b><u>7,092.77</u></b>	<b><u>1,866.22</u></b>	<b><u>12.88</u></b>	<b><u>1,699.11</u></b>	<b><u>15.55</u></b>	<b><u>2,073.23</u></b>

According to the above information, only 38.8 per cent of the Loan had been utilized after lapse of 02 years of the period of the Project. Therefore, expedited action is required to be implemented to utilize the total allocation of the Project during the rest of the period of 02 years.

### 3.2 Physical Progress

According to the information made available, the physical progress of 04 contracts awarded by the Project as at 31 December 2014 was as follows.

<u>Roads</u> -----	<u>Road Length</u> -----  <b>Km</b>	<u>Expected date of completion</u> -----	<u>Physical progress as at 31 December 2014</u> -----	
			<u>Target</u> %	<u>Actual</u> %
Bridge No 3/2 of Polgahawela-Kegalle Road	-	20 December 2014	89	83
Galle-Deniyaya-Madampe Road	13.93	31 December 2014	75	66
Eheliyagoda-Dehiowita Road	16.69	10 June 2015	77	51
Ethulkotte-Mirihana-Kohuwala Road	5.95	09 September 2014	96	95
	<u><b>36.57</b></u>			

According to the information received, the rehabilitation works of Galle-Deniyaya-Madampe Road and Eheliyagoda-Dehiowita Road was delayed due to problems in land acquisitions and bad weather conditions. Further, reconstruction works of the Bridge No 3/2 of Polgahawela-Kegalle Road was delayed due to rising of water level of the river and poor traffic management during the period of construction.

### 3.3 Contract Administration

The following observations are made.

- (a) The deficiencies of the rehabilitation works of Ehaliyagoda-Dehiowita Road observed at the site visits made by the auditors on 31 March 2015 are described as follows.
  - (i) Eventhough a sum of Rs.9.81 million had been allocated on Bill of Quantities for traffic safety and control, the Contractor had drawn less attention for that purposes. Therefore, the Resident Engineer had given instructions to the contractor to take necessary actions to minimize inconvenience of the road users. However, meaningful actions had not been taken by the Contractor to resolve the problems.
  - (ii) Eventhough a sum of Rs.6.90 million had been provided in the Bill of Quantities for road maintenance purposes, such maintenance works were not properly done and pot holes were appeared in the road surface at several locations.

- (iii) According to technical specification as given in Section 1802.4(c) of the Contract Agreement, the density of all samples taken from the compacted surface course shall not be less than 98 per cent of the marshall density at the point appropriate to the locations. However, it was observed that samples were not at required level of the specification at 09 locations. Action had not been taken to rectify those issues by the contractor.
  - (iv) As a result of deficiencies in preparation of Bill of Quantities at the initial stages, the variation orders valued at Rs.30.68 million had been submitted for aggregate base course on replacing sub base.
- (b) Due to delays in settling of the interim payments to the Contractor engaged in rehabilitation of Ethulkotte-Mirihana-Kohuwela Road, delay charges amounting to Rs.1.58 million had been paid, as required by the Section 14.8 of the General Condition of the Contract.

### **3.4 Matters in Contentious Nature**

According to the instruction given, the Department of Management Services should be referred for any other matters related to salaries and cadre of the Projects which are not covered by the provisions of the Circular No.33 dated 05 April 2007. However, concurrence of the Department of Management Services with the approval of the Secretary to the Line Ministry had not been obtained for the payment of incentive allowance amounting to Rs.2.35 million paid for the staff of Highway Design Division of Road Development Authority for additional works handled by them. However, the evidence was not made available for audit to prove the additional time taken by the staff of Highway Design Division for road designing works of the Project.