

Road Network Improvement Priority Road Project-2 -2013

The audit of financial statements of the Road Network Improvement Priority Road Project 2 for the year ended 31 December 2013 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. This Project is implemented under the Loan Facility Agreement No 4500062212011110472 dated 31 March 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the China Development Bank Corporation (CDB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Facility Agreement of the Road Network Improvement Priority Road Project 2, the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is improvement and rehabilitation of 589.9 kilometers of priority roads as contemplated under the construction contracts. As per Loan Facility Agreement, the estimated total cost of the Project is US\$ 556 million and out of that US\$ 500 million equivalent to Rs. 55,250 million or 90 per cent was agreed to be financed by the China Development Bank Cooperation. The Project commenced its activities on 28 June 2011 and was scheduled to be completed by 28 June 2014.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief where necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination included such tests of systems and controls, transactions, assets, liabilities and accounting records 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 adequate accounting records were maintained on a continuing basis to show the expenditure on 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 identification of the purchases made out of the Loan etc.
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Facility Agreement.
- (d) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether financial covenants laid down in the Loan Facility Agreement had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) 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 Facility Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year under review amounted to Rs. 23,577 million and the cumulative expenditure as at 31 December 2013 amounted to Rs. 52,902 million. The following statement shows a summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

<u>Category of Expenditure</u>	<u>Expenditure for the year</u>		<u>Cumulative Expenditure as at 31 December 2013.</u>
	<u>ended 31 December</u>		
	<u>2013</u>	<u>2012</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Fixed Assets	(15,951)	147,064	133,723
Work- in- Progress	32,318,424,335	16,100,660,630	48,851,211,645
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	32,318,408,384	16,100,807,694	48,851,345,368
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5. Financial and Physical Performance

5.1 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 are given below.

Source	Amount agreed for financing according to the Loan Facility Agreement		Budgetary provision for the year 2013	Funds utilized during the year 2013		Funds utilized up to 31 December 2013		
	US\$ million	Rs. million		Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
C DB	500	55,250**	10,830	108.30	10,830	300.60	30,060	54.40
GOSL	-	6,188	1,850	18.49	1,849	43.30	4,330	69.97
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	<u>500</u>	<u>61,438</u>	<u>12,680</u>	<u>126.79</u>	<u>*12,679</u>	<u>343.90</u>	<u>*34,390</u>	

* These amounts differ from the amounts shown in the paragraph 4.1 of this report, as payables at the year end, retention money and transaction of inter current account were not included.

** The agreed amount of Loan had been converted a rate of Rs. 110.5 per US\$ prevailed on 31 March 2011.

5.2 Physical Performance

The following observations are made.

- (a) In terms of clause No. 4.4 of the General Conditions of the Contract, the Contractors are not allowed to employ Sub- contractors for the road rehabilitation works. However, the Contractors had employed Sub-contractors for the works under three contracts valued at Rs. 7,275 million. Further, the Sub- contractors are not come under the direct control of the Consultants.
- (b) According to the monthly progress reports of the Project, the Contractors had not deployed human and other resources sufficiently to enable to complete monthly works. As a result, rehabilitation works of several roads had shown slow progress as described below.

Road -----	Target as at 31 December 2013 -----	Actual progress -----	Decline -----
	%	%	%
Horawela- Pelawatta - Pitigala Road (CIA)	100	64.20	35.80
Horana-Anguruwatota-Aluthgama Road (C4)	100	71.30	28.70
Horawela- Pelawatta - Pitigala Road (C4C)	100	82.71	17.29
Reconstruction of bridges of Thiruwanketiya- Agalawatta Road (C21)	100	63.56	36.44
Nagoda-Kalawellawa-Bellapitiya Road (C20)	89.38	58.36	31.02
Badulla-Karamatiya-Andaulpotha Road (C2B)	100.00	81.36	18.64
Tennakumbura-Rikillagaskada-Ragala Road (C11)	73.80	54.67	19.13
Provincial roads in Nuwara-Eliya District (C17)	95.13	72	23.13

5.3 Contract Administration

The following observations are made.

- (a) According to the revised work programme for the rehabilitation works of Galkulama -Anuradhapura Road, the scope of the work had been changed significantly. As a result, the quantity of Aggregate Based Course and Sub Based Course used for road rehabilitation works indicated in the original Bill of Quantities had been increased by 15 per cent and 500 per cent respectively. Further, rehabilitation works of the drains, foot paths, paving etc. valued at Rs. 99,348,518 had not been completed at the scheduled date of completion on 12 September 2013.

- (b) According to the Clause No 8.3 of the Conditions of Contract, the contractor is required to submit a revised programme to catch up any delays of the road rehabilitation works. However, the Contractor engaged in rehabilitation works of Thiruwanaletiya - Agalawatta Road had not submitted such a revised work programmes even though the rehabilitation work had shown slow progress of 47 per cent as at 31 December 2013. Further, the contractor had not adhered with the Environmental Protection Plan for road rehabilitation works and the road users and the residents in the area had made complains on inconveniences arisen due to unplanned road rehabilitation works. In addition, Officer – in -Charge of Baduraliya Police Station had informed by his Letter dated 15 January 2013 that several road accidents were reported due to poor maintenance of the Road and lack of road signals etc.,.
- (c) The estimated cost for the rehabilitation of Uswetakeyyawa- Eppamulla-Pamunugama Road was Rs. 1,490,000,000 and such rehabilitation works had been completed at a cost of Rs 1,250,000,000. The Project Coordinating Committee had decided to use the savings of Rs. 240,000,000 to rehabilitate a length of 8.3 kilometre of Negombo-Giriulla Road.

The following observations are made in this connection.

- (i) The rehabilitation of Negombo-Giriulla Road had been treated as a variation of the rehabilitation of Uswetakeyyawa- Eppamulla- Pamunugama Road. However, Negombo-Giriulla Road is in the North Western Province and not connected to the above mentioned Road.
- (ii) The contract for rehabilitation of Negombo-Giriulla Road had been awarded at a cost of Rs 277,910,000 without calling for quotations and observed that Rs.351,915,000 had been paid as at 31 December 2013. Further, the rehabilitation works were expected to be completed on 30 September 2013, the progress of the road rehabilitation works as at 31 December 2013 was 65.65 per cent only.
- (iii) A sum of Rs. 12,694,500 had been spent by the Project for treatment on sand blasting on rectification of the substandard works done by the Contractor. However, no action had been taken to recover it.
- (d) Asphalt wearing course had been laid from 29+800 kilometre to 32+390 kilometre of Bibile - Uraniya – Mahiyangana Road using a defective paver machine and as a result, the road worthiness was unsafe and uncomfortable. Eventhough the Consultant had instructed the Contractor to remove the asphalt layer and rectify the defects. However, it was not done even as at 30 June 2014.

5.4 Human Resource Management

It was observed that the 04 Consultants had been recruited contrary to the provisions of the Management Services Circular No. 33 of 05 April 2007 and remuneration aggregating Rs. 900,000 and transport allowances aggregating Rs. 1,920,000 had been paid them during the year under review. The performance reports had not been furnished to audit as enable to evaluate their contribution to the Project. Further, the performance reports had not been presented by a Project Coordinator who had been paid allowances aggregating Rs 322,326 during the year under review.