

## **Saudi Funded Road Network Development Project – 2013**

The audit of financial statements of the Saudi Funded Road Network Development Project for the first accounting period from 03 June to 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 No 9/574 dated 30 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and Saudi Fund for Development (SFD).

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

According to the Loan Agreement of the Road Network Development Project, the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is rehabilitate and improve nine road sections of 138.39 kilometers of total length in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per Loan Agreement, the estimated total cost of the Project was Rs.10,628 million and out of that Rs.7,800 million equivalent to US\$ 60 million had been agreed to be financed by the Saudi Fund for Development. Details are shown below.

<u>Donar Agency</u>	<u>Amount Agreed</u>		<u>Percentage of Estimated Total Cost</u>
	<u>US \$ million</u>	<u>Rs. million</u>	
SFD	60	7,800.00	73
GOSL	-	<u>2,828.41</u>	27
Total	<u>60</u>	<u>10,628.41</u>	

The Project commenced its operations on 03 June 2013 and was scheduled to be completed before 31 December 2015.

### **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 Generally Accepted Accounting Principles. 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 Agreement.
- (d) Whether the funds, materials and equipment 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 Generally Accepted Accounting Principles, and
- (g) Whether financial covenants laid down in the Loan 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,
- (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 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 first accounting period from 03 June to 31 December 2013 amounted to Rs.1,247 million. The following statement shows a summary of the expenditure for the year under review.

<b><u>Category of expenditure</u></b>	<b><u>Expenditure for the first accounting period from 03 June to 31 December 2013</u></b>
	<b><u>Rs.</u></b>
Work- in- progress	509,999,448
Receivables	<u>89,431</u>
	<u>510,088,879</u>

#### **5. Audit Observations**

##### **5.1 Accounting Deficiencies**

The following observations are made.

- (a) Proceeds of Loan received during the year under review had been understated by Rs.417,365,257 due to non-accounting of direct payments made by the Lending Agency. Further, the foreign exchange loss amounting to Rs. 6,956,719 had also not been accounted due to above misstatement.
- (b) A computer and accessories valued at Rs.796,700 transferred to this Project from an other Project had been handed over to the Road Development Authority. However, Boards of Survey had not been carried out to verify the physical existence of the said assets.

#### **6. Financial and Physical Performance**

##### **6.1 Utilization of Funds**

Certain significant statistics relating to the financing and budgetary provision for the year under review and the utilization of funds during the year under review are given below.

	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary provision for the year 2013</u>	<u>Funds utilized up to 31 December 2013</u>	
	<u>US\$. million</u>	<u>Rs. million</u>	<u>Rs. million</u>	<u>Rs. million</u>	<u>%</u>
SFD	60	7,800**	386.673	386.673	4.96
GOSL	-	2,828	88.373	39.343	1.39
	<u>60</u>	<u>10,628</u>	<u>475.046</u>	<u>*426.016</u>	

\* These amounts differ from the amounts shown in the paragraph 4.1 of this report, due to non-inclusion of accrued expenditure; retention money and transaction of inter current account which is yet to be claimed.

\*\* The agreed amount of Loan had been converted at a rate of Rs. 130 per US\$ prevailed on 30 October 2012.

## 6.2 Physical Progress

According to the decision made by the Ministers of Cabinet at its meeting held on 12 January 2012, it was expected to rehabilitate 144 kilometres under this Project. However, the cost estimates had been prepared to rehabilitate 138.39 kilometres of 09 roads. The Project had awarded contracts to rehabilitate 57.68 kilometres of five roads during the year under review and the physical progress of rehabilitation of such roads as at 31 December 2013 is given below.

<u>Name of the Road</u>	<u>Length (Km)</u>	<u>Scheduled Date for Completion</u>	<u>Physical Progress as at 31 December 2013</u>	
			<u>Target</u>	<u>Actual</u>
			%	%
Kandy-Jaffna Road (A-09) Katugastota to Alawathugoda	10.97	02 June 2014	46.63	11.23
Kandy-Jaffna Road (A-09) Alawathugoda to Palapathwela	16.97	02 June 2014	44.45	12.61
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Thampalagamam-Kinniya Road (B541) Thampalagamam to Soorangai	8.50	06 December 2014	16.7	6.96
Dehiowita-Deraniyagala-Noori Road (B093) Dehiowita to Daraniyagala	14.00	04 December 2014	11.94	7.41
Colombo-Kandy Road (A01) Peliyagoda-Kiribathgoda	7.24	12 December 2013	0.11	0.10

### 6.3 Contract Administration

The following observations are made.

(a) In accordance with the particular specification of the Condition of the Contract No.103.4 of Volume ii, the Contractor shall be responsible to maintain the safety measures of the road during the construction period. According to the minutes of site meetings, the traffic management of the Dehiowita-Deraniyagala-Noori Road was not satisfactory. Action had not been taken by the Resident Engineer of the Project to adhere with Guidelines issued by the Road Development Authority to ensure the safety of road users. Further, in accordance with the health, safety and environmental management policy developed by the Project, the Contractor is required to take action to minimize the inconveniences to the surrounding land owners and road users. The site meeting minutes revealed that action taken to control dust emissions of Dehiowita-Deraniyagala-Noori Road was not sufficient.

(b) Although there was no provision in the Bill of Quantities, a sum of Rs. 1,421,000 had been paid to supply boundary marks for Dehiowita-Deraniyagala-Noori Road.

### 6.4 Fruitless Transaction

In accordance with Sub Clause 4.2 and 14.2 of the Conditions of the Contract, the first installment of the advance payment to be paid to the contractor within 42 days after issuing the Letter of Acceptance or within 21 days after receiving the documents whichever is later. However, the advances had not been released on due date and therefore, the Project had to be paid a sum of Rs. 13,060,861 to the Contractor as interest without approval of the Road Development Authority. Details are as follows.

<u>Contract</u>	<u>IPC No.</u>	<u>Interest paid</u> <u>Rs.</u>
Dehiowita-Deraniyagala-Noori Road (0+000 to 14+000 kilometre)	03	2,642,452
Thampalakamam-Kinniya Road (0+000 to 8+500 kilometre)	06	2,079,435
Kandy-Jaffna Road (4+600 to 15+570 kilometre)	02	3,929,788
Kandy-Jaffna Road (15+570 to 32+540 kilometre)	02	<u>4,409,186</u>
		<u>13,060,861</u>

### 6.4 Human Resource Management

The approval of the Department of Management Services had not been obtained for the recruitment of the 09 officers for Project Monitoring Unit and 02 officers for Project Coordinating Unit, according to the Circular No.DMS 33 of 05 April 2007 of the Department of Management Services.