

## **Road Network Improvement Project (RNIP) - 2013**

The audit of financial statements of the Road Network Improvement Project (RNIP) 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 read in conjunction with Section 2.09 (a) of Article II of the Loan Agreement No.1649 SRI (SF) dated 28 January 1999 entered into between the Asian Development Bank (ADB) and the Road Development Authority (RDA).

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

According to the Loan Agreement of the Road Network Improvement Project, the Road Development Authority (RDA) is the Executing and Implementing Agency of the Project. The objective of the Project is to provide and maintain an appropriate strategic road network which provides contribution to the economic and social development in the areas through which the roads passed. In addition to the main objective, the other objectives are assisting the Government's rehabilitation programme for infrastructure damaged by the flood and enabling the early restoration of economic and social activities, especially for the rural poor. As per the Loan Agreement, the estimated total cost of the Project is Rs.9,564 million and out of that Rs.6,933 million equivalent to US\$ 92.5 million was agreed to be financed by the Asian Development Bank. The Project commenced its activities in 1998 and expected to be completed by 31 December 2008. Subsequently, the Lending Agency had extended the period of the Project up to April 2009. However, activities of the Project had been continued up to 31 December 2013 using GOSL funds.

### **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 tests 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 limitation 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 were necessary for the purpose of my audit. I therefore believe that the audit provides a reasonable basis for my opinion. The examination also included such test 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of Project, the identifications of purchases made out of the Loan, etc.,
- (c) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (g) Whether the 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 in accordance with Generally Accepted Accounting Principles.

- (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 and information made available, the expenditure of the Project for the year under review amounted to Rs. 11,043,208 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 17,606,263,855. The following statement shows a summary of expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

<u>Description</u>	<u>Expenditure for the year ended 31</u> <u>December</u>		<u>Cumulative</u> <u>expenditure as</u> <u>at 31 December</u> <u>2013</u>
	2013 Rs	2012 Rs	Rs
Fixed Assets-Written Down Value /(Transferred to RDA)	-	-	12,435
Civil Works completed	4,958,336	308,848,100	14,452,576,790
Work in Progress	3,773,224	-	2,412,416,045
Project Administration	-	(280,333,708)	671,845,522
Land Acquisition	2,311,648	1,928,023	69,413,063
	<u>11,043,208</u>	<u>30,442,415</u>	<u>17,606,263,855</u>

##### 4.2. Imprest Fund

There were two Imprest Fund Accounts in operation under this Project up to 30 April 2009. No foreign funds had been received thereafter and there was no balance in the Imprest Fund Account since then.

#### 5. Audit Observations

The following observations are made.

- (a) Action had not been taken by the Project to transfer the fixed assets purchased during the Project period at a cost of Rs.62,425,145, to the Road Development Authority even though the Project had concluded its activities as at 31 December 2008 whilst the period for settlement of imprest had been ended on 30 April 2009. Further, it

was observed the fixed assets of the Project valued at Rs 13,189,007 remained in the custody of entities which had no direct relationship with the activities of the Project.

- (b) Advances amounting to Rs. 233,500 made by the Project in 2010 for a foreign visit had remained unsettled even as at 31 December 2013. Further, a claim amounting to Rs. 113,977 made by a third party on damaging properties had also remained unsettled for over 5 years.

## **6. Financial and Operating Review**

### **6.1 Utilization of Funds**

According to the financial statements and information made available, certain significant statistics relating to the financing of the Project, budgetary provision and utilization of funds during the year under review and up to the end of the year under review are shown below.

<u>Source</u>	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary Provision for the year 2013</u>	<u>Utilization of Funds for the year 2013</u>	<u>Funds Utilized up to 31 December 2013</u>
	US\$ Mn)	Rs. (Mn)	Rs.(Mn)	Rs.(Mn )	Rs.(Mn )
ADB	92.5	6,933	-	-	9,629
GOSL	-	2,631	13.1	11.3	7,977
Total	92.5	9,564	13.1	11.3	17,606

### **6.2 Acquisition of Lands for Road Improvement Purposes**

The activities of the acquisition of lands had not been completed in time due to lack of proper planning. The following observations are made in this connection.

- (i) According to the Road Construction Plan, 18,688 plots of land were expected to be acquired for the purpose of improvements of roads under the Project. However, 18,638 plots of land had been acquired up to 31 December 2013. Out of the plots of land acquired as referred to above, 12,204 plots of lands only had been registered at the Office of the Land Registry in terms of Section 44 of the Land Acquisition Act.
- (ii) According to the information made available regarding the land acquisition activities of the Project, a sum of Rs. 2,261,397,428 had been paid as compensation under decisions arrived at the Land Acquisition and Resettlement Committee (LAARC). However, an interest on delays in payment of compensation aggregating Rs. 128,962,516 had been paid as at 31 December 2013 in respect of 12,641 plots of land, thus indicated that the Project had not taken meaningful action to settle the compensation payments to enable to avoid extra cost.

- (iii) According to the information made available, the payments for compensation had not been completed even as at 31 December 2013 due to disputes in acquisition of lands. Details are given below.

<b>Road</b>	<b>No of plots of land disputed and pending compensation as at 31 December 2013</b>
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Katugastota- Kurunegala	39
Panadura-Ingiriya	05
Ambalangoda-Elpitiya	04
Pasyala- Mirigama	07
Katugastota-Wattegama	14
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<b>Total</b>	<b>69</b>
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## **7. Closure of the Activities of the Project**

As per initial plan, the Road Network Improvement Project had been implemented to rehabilitate 18 roads with the length of 261.8 kilometres at a cost of Rs. 7,335 million. As per the financial statements and other information received, the Project had completed 23 roads with the length of 312 kilometres at a cost of Rs.10,625 million as at end of the year 2012 except the rehabilitation of AA010 Katugastota - Kurunegala Road (37.8 Km) and B 205 / 369 Katugastota – Wattegama Road (9.8 Km) which completed subsequently under routine programmes of the Road Development Authority using funds provided by the Government of Sri Lanka. Further, it was observed that the initial estimated cost of the Project had been increased by Rs. 8,042 million owing to additional quantities, extra work, fluctuations in work etc, of the improvements of the roads. The initial contract period had also been extended up to 67 months. All eligible expenditure had been claimed and the Project Completion Report had also been submitted by the Consultants by May 2009. However, action had not been taken by the Road Development Authority, as the Executing Agency to wind up the accounts of the Project and taking over of assets and liabilities of the Project.