

## SOUTHERN TRANSPORT DEVELOPMENT PROJECT - 2013

---

The audit of financial statements of the Southern Transport Development Project from Pinnaduwa to Godagama (South Section) 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. The Project is implemented under two Loan Agreements No.BLA201011 for package 1 and No.BLA201012 for package 2 dated 17 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Export Import Bank of China.

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

According to the Loan Agreements of the Southern Transport Development Project, the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is to assist the development of the economy of Southern Province by encouraging growth in industries, tourism, fisheries and agriculture. The outcome of the Project is Sri Lanka's first access controlled highway, connecting Kottawa in Colombo suburbs to Matara in the Southern Province with an access road from the highway to Galle, which is the capital of Southern Province. As per the Loan Agreements, the estimated total cost of the Project is US\$ 639.74 million and out of that US\$ 164.6 million or 25.73 per cent was agreed to be financed by the ADB. The amount financed by Donor Agencies and GOSL for the Project is shown below.

<u>Donor Agency</u>	<u>Amount</u> US \$ (Million)	<u>Percentage</u> (%)
Asian Development Bank (ADB)	164.60	25.73
Japan bank for International Co-operation	103.00	16.10
Nordic Development Fund (NDF)	5.40	0.84
Swedish International Development Association	0.80	0.13
China Exim Bank	138.21	21.60
Government Of Sri Lanka (GOSL)	<u>227.73</u>	<u>35.60</u>
Total	<u>639.74</u>	<u>100.00</u>

Implementation of Project activities was commenced in January 2003. The section from Kottawa to Pinnaduwa (Galle) which is 95.05 Km and Galle Port access road which is 5 Km had been completed and opened to traffic on 27 November 2011 and the Government has declared the Southern expressway as a user fee highway as per Government Gazette Notification No.1732/12 dated 18 November 2011. The balance section from Pinnaduwa to Godagama (Matara) was constructed by utilizing US\$ 138.21 million equivalent to SLRs. 15.98 billion received from Exim Bank of China under the Loan Agreements No.BLA-201011 and No.BLA-201012. The expressway was scheduled to be completed its full operation up to Godagama by February 2014 with installation of a permanent toll collection system. However, the balance section from Pinnaduwa to Godagama (Matara) was opened to traffic on 16 March 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 test 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 explanation 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 also 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 agencies, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of 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 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 the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date and
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

### **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) the withdrawals from and replenishments to the Imprest Fund Accounts during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the statements of expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement and
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

#### 4. **Financial Statements**

##### 4.1 **Financial Performance**

According to the financial statements presented, the expenditure of the Project for the year under review amounted to Rs. 17,662,585,157 and the cumulative expenditure as at 31 December 2013 amounted to Rs.103,102,325,947. 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.

<b><u>Category of Expenditure</u></b>	<b><u>Expenditure for the year ended 31</u></b>		<b><u>Cumulative expenditure as at 31 December 2013</u></b>
	<b><u>December.</u></b>		
	<b>2013</b>	<b>2012</b>	
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Property, Plant and Equipment	(3,602,981)*	(4,119,579)	16,848,535
Completed works/Work-in-Progress	<u>17,666,188,138</u>	<u>10,559,475,327</u>	<u>103,085,477,412</u>
	<u>17,662,585,157</u>	<u>10,555,355,748</u>	<u>103,102,325,947</u>

\* Due to depreciation of assets and assets transferred to RDA.

##### 4.2 **Imprest Fund Accounts**

According to the financial statements and information made available, the operations of the Imprest Fund Accounts for the year ended 31 December 2013 is summarized below.

	<b><u>Asian Development Bank</u></b>		<b><u>Nordic Development Fund (NDF)</u></b>	
	<b><u>as at 31 May 2013</u></b>		<b><u>as at 31 December 2013</u></b>	
	<b>US \$</b>	<b>Rs.</b>	<b>US \$</b>	<b>Rs.</b>
Balance as at 01 January 2013	77,670	9,876,593	2,834	269,454
Add: Replenishments	-	-	Nil	Nil
	<u>77,670</u>	<u>9,876,593</u>	<u>2,834</u>	<u>269,454</u>
<b><u>Less:</u></b>				
Withdrawals	77,670	9,813,810	Nil	Nil
Foreign exchange loss		62,783		
Balance as at 31 December 2013	<u>Nil</u>	<u>Nil</u>	<u>2,834</u>	<u>269,454</u>

## **5. Audit Observations**

### **5.1 Accounting Deficiencies**

The project had not taken action to reconcile the information relating to the cost of the Project with the information made available at the Ministry of Highways, Ports and Shipping. Therefore, the cost of the Project amounting to Rs.2,619,264,907 as per financial statements had been shown as Rs.2,629,078,717 in the Appropriation Account of the Ministry.

### **5.2 Non-compliance with Laws, Rules and Regulations**

The following observations are made.

- (a) According to the clause No.14.6 of the Conditions of Contract under Package 1 of the Project, the minimum payment through the Interim payment Certificate (IPC) should be Rs.150 million. However, a sum of Rs.5.15 million had been paid as a special payment to a sub contractor by Interim Payment Certificate – 17.
- (b) Contrary to the instructions of the paragraph 8.13 of the Government Procurement Guidelines-2006, variation orders for supply of monument at a cost of Rs.552,438 and construction of flower troughs at a cost of Rs.2,205,677 which were not related to the activities of the contract had been approved and paid under package – 2.

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

### **6.1 Financial Performance**

The details of the total cost estimated for the construction of Expressway of the Section from Pinnaduwa to Godagama and the cumulative expenditure incurred up to 31 December 2013 is given below.

<b><u>Package</u></b>	<b><u>Total estimated cost</u></b> <b>(Rs. Mn)</b>	<b><u>Cumulative expenditure</u></b> <b><u>as at 31 December 2013</u></b> <b>(Rs. Mn)</b>
Package I (Pinnaduwa to Kodagoda)	10,170	4,177
Package II (Kodagoda to Godagama)	<u>8,530</u>	<u>5,075</u>
	<u>18,700</u>	<u>9,252</u>

### **6.2 Contract Administration**

The following observations are made.

- (a) According to the progress report of the Project, the construction works of the Section from Pinnaduwa to Godagama of the Expressway was below than the expected level as at 31 December 2013 as the construction works were commenced with delays due to failures of the constructor. However, the contract period had been extended up to March 2014.
- (b) According to the Clause No.14.2 of the Conditions of Contract, 20 per cent of the accepted contract value amounting to Rs.18,700 million to be paid as an advance payment for the construction of the Section from Pinnaduwa to Godagama of the Expressway. However, an additional advances amounting to Rs.522,272,250 under package 01 and Rs.438,027,750 under Package 02 had been made.

### **6.3 Fruitless Transactions**

-----  
It was observed that a sum of Rs.373 million had been spent by the Project as interest on delays to settle compensation payment on land acquired by the Project.

#### 6.4 Human Resource Management

---

The following observations are made.

- (a) Annual action plan for the Section from Pinnaduwa to Godagama of the Expressway by clearly identifying the responsibilities of core-staff with the targets to be achieved during the year under review had not been prepared. Therefore, the progress as at 31 December 2013 of the Project could not be properly evaluated in order to take corrective measures and to make necessary changes with the view to achieve objectives set for.
  
- (b) Although 04 local Consultants had been recruited by the Project as instructed by the Director General of the Road Development Authority without obtaining an approval from the Department of Management Services. Remuneration amounting to Rs.2,245,125 had been paid them during the year under review. However, job description of the Consultants had not been submitted by the Project for audit.