

Road Network Improvement Priority Road Project-1 – 2013

The audit of financial statements of the Road Network Improvement Priority Road Project-1 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 4500402212010110492 entered into between the China Development Bank Corporation and the Government of the Sri Lanka on 16 December 2010.

1.2 Implementation, objectives, funding and duration of the Project

According to the Loan Agreement of the Road Network Improvement Priority Road Project-1, the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is the improvement and rehabilitation of priority roads as contemplated under the construction contracts. As per Loan Facility Agreement, the estimated total cost of the Project is US\$ 169.8 million and out of that US\$ 152.8 million equivalent Rs. 16,976 million or 90 per cent was agreed to be financed by China Development Bank Corporation. The Project commenced its activities on 29 December 2010 and was scheduled to be completed before 29 December 2013.

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 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 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 Lending Agency and Government of Sri Lanka, 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.
- (c) Whether withdrawals under the Loan had been made in keeping with the specifications laid down in the Loan Facility 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 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.6,149.95 million and the cumulative expenditure as at 31 December 2013 amounted to Rs.17,719.09 million. The following statement shows a summary of the expenditure for the year under review, the expenditure for the previous year and the cumulative expenditure as at 31 December 2013.

<u>Category of Expenditure</u>	<u>Expenditure for the year ended 31 December</u>		<u>Cumulative Expenditure as at 31 December 2013</u>
	<u>2013</u>	<u>2012</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Fixed Assets	519,996	1,450,273	2,044,922
Assets Transferred to Road Development Authority	-	3,392,857	3,392,857
Work-in-Progress	<u>6,149,431,108</u>	<u>8,633,859,994</u>	<u>17,713,656,224</u>
	<u>6,149,951,104</u>	<u>8,638,703,124</u>	<u>17,719,094,003</u>

5. Audit Observations

5.1 Accounting Deficiencies

The following observations are made.

- (a) It was observed that the expenses aggregating Rs. 1,641,835 spent by the Project on allowances for the members of Technical Evaluation Committee and salaries and allowances paid for the staff of the other Projects were not directly related for the activities of the Project.
- (b) A sum of Rs. 810,053 had been spent during the year under review by the Project to purchase a computer, computer accessories, office utilities and a digital camera for the use of other institutions which are not related to Project.

6. Financial and Physical Performance

6.1 Utilization of Funds

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

Sources	Amount agreed for financing in the Loan Facility Agreement		Budgetary Provision for the year 2013	Funds Utilized during the year 2013		Accumulated Funds Utilized up to 31 December 2013		
	US\$ Mn.	Rs. Mn	Rs. Mn	US\$ Mn.	Rs. Mn	US\$ Mn.	Rs. Mn	%
CDB	152.8	16,976	3,200.00	24.77	3,193.51	112.35	13,461.61	73.52
GOSL	<u>17.0</u>	<u>1,888</u>	<u>569.40</u>	<u>-</u>	<u>569.30</u>	<u>-</u>	<u>1,983.01</u>	105.03
	<u>169.8</u>	<u>18,864</u>	<u>3,769.40</u>	<u>24.77</u>	<u>*3,762.81</u>	<u>112.35</u>	<u>*15,444.62</u>	

* This amount differs from the amount shown in paragraph 4.1 of this report due to non-inclusion of accrued expenditure, provision for gratuities, payable to the Consultant and contractor, retention money and balance of inter current account with Road Development Authority.

** The agreed amount of Loan had been converted a rate of Rs.111.10 per US\$ prevailed on 16 December 2010.

6.2 Physical Performance

The following observations are made.

(a) According to the documents of the Project, it was expected to complete rehabilitation works of 08 roads under 6 packages during the period of the Project and out of that, the rehabilitation works of 6 roads had been completed as at 31 December 2013. The rehabilitation works of Thiriwanaketiya-Agalawatte Road (C3) and Pelawatta-Kankotiyawatta-Thiniyawala-Morawaka Road (C2A) had shown slow progress of 56.6 per cent and 78.7 per cent respectively at the end of the year under review.

(b) According to the records made available at the Project, the compaction of asphalt concrete laid at the chainage from 4+100 kilometre to 13+750 kilometre of the Thiriwanaketiya-Agalawatte Road was not up to the standards. According to the measurement sheets, quality failure in 15 locations, out of 25 locations had only been rectified by the contractor. Further, 15 instances of failures had been revealed on tests carried out to measure cube strength of concrete structures. However, failures in 04 instances had been rectified.

6.3 Contract Administration

The activities such as procurement and maintenance of motor vehicles, installation of name boards etc had not been identified and included in the original Bill of Quantities prepared for the rehabilitation of Thiriwanaketiya-Agalawatte Road. Therefore, the cost aggregating to Rs.

16,531,596 had been identified as variations of the contract for rehabilitation of Thiriwanaketiya-Agalawatte Road and paid accordingly.

6.4 Human Resources Management

According to the Circular No. DMS 33 of 05 April 2007, the cadre of the Project should be approved by the Department of Management Services. However, 03 Consultants were recruited without relevant approval and a sum of Rs. 1,860,000 had been paid them as remuneration during the year under review. The job descriptions stipulated in Terms of Reference of the Consultants had not been submitted for audit. Therefore, the contribution of such Consultants to achieve the objectives of the Project could not be ruled out in audit.