

Improvement of Hatton-Nuwara Eliya Road Project – 2014

The audit of financial statements of the Improvement of Hatton-Nuwara Eliya Road Project for the year ended 31 December 2014 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 Loan Agreement No. SRI-20 dated 02 November 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Economic Development Co-Operation Fund.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Highways and Investment Promotion is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are Stimulating Socio-economic growth and development of balance in the Southern Province by improving access to markets and providing employment opportunities and social services from Hatton to Nuwara Eliya District. Therefore, it was proposed to improve 35.6 kilometres from Hatton to Nuwara Eliya road, construction of Kotagala Tunnel and Nuwara Eliya under pass Railway Bridge. As per the Loan Agreement, the estimated total cost of the Project was US\$ 49.92 million equivalent to Rs.5,618 million and out of that US\$ 40 million equivalent to Rs.4,501.2 million was agreed to be provided by the Economic Development Co-Operation Fund. The Project commenced its activities on 01 December 2011 and scheduled to be completed by 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 Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the

amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of 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 identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and

- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 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 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the 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.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Expenditure amounting to Rs.42,000,000 shown in the financial statements was not agreed with the corresponding amount of Rs. 41,472,008 in the Appropriation Account of 2014 submitted, thus showing a difference of Rs.527,992.

3. Financial and Physical Performance

3.1 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 and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the budget estimate for the year under review	Funds utilized			
	US\$	Rs.		during the year under review		As at 31 December 2014	
	US\$	Rs.	Rs.	US\$	Rs.	US\$	Rs.
	million	million	million	million	million	million	million
Donor Agency (EDCF)	40.00	4,501.20	2,004.0	15.02	2,003.90	33.35	4,448.99
GOSL	9.92	1,116.86	103.2	0.31	42.00	1.18	158.15
	<u>49.92</u>	<u>5,618.06</u>	<u>2,107.2</u>	<u>15.33</u>	<u>2,045.90</u>	<u>34.53</u>	<u>4,607.14</u>

3.2 Physical Progress

The physical progress of the road rehabilitation works and other construction works carried out by the Project as at 31 December 2014 is given below.

<u>Activity</u>	<u>Expected date to be completed</u>	<u>Physical progress as at 31 December 2014 (%)</u>	
		<u>Target</u>	<u>Actual</u>
i) Construction of road Hatton to Nuwara Eliya	02 March 2015	94.98	95.88
ii) Kotagala Tunnel	15 March 2015	90.20	72.36
iii) Nanu oya under pass (Nuwara Eliya)	28 February 2015	92.10	89.59

3.3 Contract Administration

The following observations are made.

- (a) The Project had improved 200 metres of the Dayagama Road at Lindula Junction by applying asphalt wearing course and a sum of Rs.2,828,220 had been spent. However, this activity was not related to the scope of the Project and the approval from the relevant parties had not been obtained thereon.

(b) Although as per technical specifications in paragraph 13.4 of volume 3, the contractor should comply with safety precautions and satisfactory traffic controlling arrangements, the contractor had not complied with such requirements during the execution of works.

It was observed that the proposed traffic signs and road markings at Kotagala Tunnel had not been provided except 5 chevron boards.

Further, it was observed that the warning boards along the Radella shortcut road had not been erected adequately to reduce accidents.

(c) At a site inspection made on 14 July 2015, 08 Nos. of uncompleted works and damages such as compilation of foot walk, near the bridge at 0+460 kilometre rectification of W beam, cleaning of culvert hole, rectification of drain wall and construction of drain inlet were observed.

3.4 Idle Assets

Four unused Lattice Arches for the Kotagala Tunnel valued at Rs.2.1 million had remained idle at the office of the Executive Engineer of the Road Development Authority without any safety arrangement.