

## **Northern Road Rehabilitation Project (Rehabilitation of Puttalam - Marichchikade - Mannar Road) -2014**

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The audit of financial statements of the Northern Road Rehabilitation Project (Rehabilitation of Puttalam- Marichchikade-Mannar Road) 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. This Project is implemented as per the Loan Agreement No. BLA 201112 dated 29 April 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Export-Import Bank of China.

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

According to the Loan Agreement of the Project, then Ministry of Ports and Highways, presently Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The Road Development Authority is responsible for management and coordination of the activities of the Project at the national level. The objective of the Project is to rehabilitate 113 kilometres of Puttalam-Marichchikade-Mannar Road. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 86.11 million and out of that US\$ 73.21 million or 85 per cent was agreed to be financed by the Export-Import Bank of China. The preliminary works of the Project was commenced on 24 August 2012 and scheduled to be completed by 23 February 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 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 Auditors 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 risks of material misstatement 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.
- (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 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.

### **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **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 Accounting Standards,
- (b) the funds provided had been utilized for the purpose 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 of Financial Statement**

### **2.2.1 Accounting Deficiency**

As per the consultancy and civil works contract agreement, the assets such as vehicles, equipment, furniture etc., purchased by the contractor and the Project, out of the funds provided by the Project are treated as the properties of the Project. However, the value of assets such as vehicles and equipments etc, procured through contractors and Consultants had been shown under the civil works completed instead of taking action to recognize the value of assets separately and bring it into account accordingly.

### **2.2.2 Non - Compliance with Laws, Rules and Regulations**

The following observations are made.

- (a) A sum of Rs. 667,299 had been remitted to the Road Development Authority as overhead charges in contrary to the instruction of the Sections 8.3.9 of the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises of the General Treasury.
- (b) Payment of advances aggregating Rs. 988.7 million on 30 per cent of total contract value which included provisional sums and contingencies, contrary to the Section 5.4.4 of the Government Procurement Guidelines.

### 3 Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Amount utilized		
			during the year 2014	as at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
China Exim Bank	73.21	9,887.50	3,278.8	41.55	5,427.84
GOSL	12.90	1,808.12	64.6	12.49	1,675.33
	<u>86.11</u>	<u>11,695.62</u>	<u>3,343.4</u>	<u>54.04</u>	<u>7,103.17</u>

#### 3.2 Physical Progress

The following observations are made.

- (a) Out of the rehabilitation and improvement works of 113 kilometres of Puttalam-Marichchikade-Mannar Road to be carried out under original scope of works, the rehabilitation and improvement works of 36 kilometres of the road section from Eluwankulama to Marichchikade which lies across the Wilpattu Sanctuary had been deleted subsequently due to fundamental right case filed by the outside parties.

The following observations are made thereon.

- (i) Eventhough 31.8 per cent of original scope of works had been deleted, the action had not been taken by the Project to revise the intended completion date of the contract, based on reduction of works and calculate and recover the mobilization advances overpaid, based on the original cost estimate.
- (ii) The extend of the works for the supervision consultancy service had not been reconsidered, based on revised scope of works and the period and charges for the consultancy services had not been revised accordingly.

- (iii) According to the order of the Supreme Courts under the fundamental right case, the Resident Engineer had instructed by the his letter dated 13 February 2015, the normal maintenance works of the Road, within the Wilpattu Sanctuary are allowed to be done and required to be repaired the culverts of 33/7 and 34/1 to keep the road in motorable condition. However, repair works of culverts had not been carried out by the contractor.
- (c) According to the Resident Engineer's Letter No.C3/39C/00271 dated 12 August 2014, the cracks in 25 locations of the rehabilitated sections of asphalt concrete pavement of the Road had been investigated. However, no evidence were made available to prove that the rectification of cracks had been done by the contractor.

### **3.3 Contract Administration**

The following observations are made.

- (a) It was observed at the site examination carried out of by the auditors that the Project had taken action to reduce the width of foot walk at Silawathurai junction instead of demolishing a building constructed in unauthorized manner.
- (b) According to the Dispute Adjudication Agreement, the employer and the contractor jointly and severally responsible to share the expenses of the members of the Adjudication Board. However, the a sum of Rs.3.01 million incurred in connection with the fees for the members of Adjudication Board had been charged to the Project. Further, the Dispute Adjudication Board Agreement had been terminated subsequently and the Project had taken action to resolve the disputes with the agreement of the contractor.

### **3.4 Transaction in Contentious Nature**

The construction works of access road to the St. Anne's Central College of Vankalei in Mannar had been completed by the Project as a variation of the main work at a cost of Rs.7.44 million. Further, rehabilitation of 3.9 kilometres of the road section of Navatkuli-Karaitivue-Mannar Road had also been carried out by the Project at a cost of Rs. 681.60 million, as a variation. It was observed that the cost estimates thereon had been prepared and approved by the Project without obtaining the approval of Technical Evaluation Committee.