

## **Saudi Fund Road Network Development Project - 2014**

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The audit of financial statements of the Saudi Funded Road Network Development 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. 9/574 dated 30 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Saudi Fund for Development.

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

According to the Loan Agreement of the Project, then Ministry of Highways, Ports and Shipping, presently the Ministry of Highways and Investment Promotion is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to rehabilitate and improve 138.39 kilometres of the sections of 09 roads in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per the Loan Agreement, the estimated total cost of the Project was US\$ 81.75 million equivalent to Rs.10, 628 million and out of that US\$ 60 million equivalent to Rs.7, 800 million was agreed to be provided by the Saudi Fund for Development. The Project commenced its activities on 03 June 2013 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 judgment, 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 equipment 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, 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 **Non - Compliance with Laws, Rules and Regulations**

Remuneration and transport allowance of Rs.50,646 and Rs.92,000 respectively had been paid to a Consultant recruited by the Project without an approval of the Department of Management Services, according to the Circular No. 33 of 05 April 2007.

## 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 utilization			
	US\$ million	Rs. million		During the year under review		As at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
SFD-Donor Agency	60.00	7,800	1,607.8	12.35	1,606.4	15.33	1,993.1
GOSL	21.75	2,828	79.9	0.61	79.8	0.92	120.3

	<u>81.75</u>	<u>10,628</u>	<u>1,687.7</u>	<u>12.96</u>	<u>1,686.2</u>	<u>16.25</u>	<u>2,113.4</u>
<b>3.2</b>	<b><u>Physical Progress</u></b>						

According to the information received, the rehabilitation works of the section from Dehiowita to Deraniyagala of Dehiowita-Deraniyagala-Noori Road had shown a slow progress of 43.57 per cent eventhough it was expected to achieve 75.49 per cent of progress as at 31 December 2014. Further, the rehabilitation works of the section from Palapathwela to Naula of Kandy – Jaffna Road had shown very slow progress of 22.37 per cent as at 31 December 2014 eventhough it was expected to complete 85.83 per cent of rehabilitation works as at that date. However, the Project had not explained the reasons for such delays. The revised work programs had not been submitted by the contractor to complete the balance works remained at the end of the year under review.

### **3.3 Contract Administration**

The following matters are observed at the audit inspection carried out on rehabilitation and improvement works at Dehiowita to Deraniyagala Road.

- (a) As per sub clause 103.4 of Volume II, of the particular specifications of the contract, the contractor shall take necessary measures for the safety of traffic and third parties by providing, erecting and maintaining all signs, lamps, barriers, traffic control signals, road markings etc. However, it was observed at the physical inspection that the safety precautions provided and traffic controlling arrangements were remained unsatisfactory. The Resident Engineer had not taken any actions for non-compliance of guidelines of the Road Development Authority and the traffic management plan implemented by the contractor.
- (b) The approach roads to Deraniyagala District Hospital, Divisional Secretariat Office of Deraniyagala and the Police Station of Deraniyagala had also been improved under the Project, eventhough it was not included in the scope of this Project.
- (c) It was observed that cost overrun of Rs.154.69 million and variation orders valued at Rs.75.17 million had been approved up to 31 December 2014, as a result of preparation of Bill of Quantities was not done properly at the initial stages.

### **3.4 Matters in Contentious Nature**

The following observations are observed.

- (a) The Project had spent a sum of Rs.2.6 million during the year under review to pay incentives for the staff of Highway Design Division of the Road Development Authority. However, the approval of the Line Ministry or Department of Management Services had not been obtained thereon.
  
- (b) According to the physical inspections carried out by the auditors in July 2015, it was observed that 08 locations of the Katugastota-Alawathugoda Road and Alawathugoda- Palapathwela Road were slipped away due to earth slips.

### **3.5 Fruitless Transaction**

It was observed that the payments made in 03 Interim Payment Certificates amounting to Rs. 262,904,343 to the contractor engaged in rehabilitation of Alawathugoda to Palapathwala Road had been settled with delays ranging over 01 days to 23 days and as a result, financing charges amounting to Rs. 987,008 to be paid additionally.