

Southern Road Connectivity Project - 2015

The audit of financial statements of the Southern Road Connectivity Project for the year ended 31 December 2015 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 Article I of Loan Agreement No. 3028 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highway, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are screening, feasibility study and detailed engineering design of national highways linking the expressway network. As per the Loan Agreement, the estimated total cost of the Project was US\$ 6.08 million equivalent to Rs. 801.34 million and out of that US\$ 5 million equivalent to Rs. 659 million was agreed to be provided by the Asian Development Bank. The Project commenced its activities 22 August 2014 and scheduled to be completed by 30 June 2019. The consultancy services under screening, feasibility study and detailed engineering design of national highways linking the expressway net work had been commenced on 09 December 2014 and scheduled to be completed 09 June 2016.

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 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 etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

The Statement of Cash Flow presented with the financial statements had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standard – 02 and as a result, the cash inflows and outflows had not complied with the other balances shown in the Statements of Financial Position.

2.2.2 Accounting Deficiencies

The following accounting deficiencies are observed in audit.

- (a) Consultancy fees of Rs. 9.10 million to be paid as at 31 December 2015 had not been brought to account. As a result, the balances of the work- in progress and current liabilities shown in the Statement of Financial Position had been understated by same amount.

- (b) It was observed that the activities of the other donor funded project called “Northern Road Connectivity Project” is monitored by the same Project Monitoring Unit established for the purpose of this Project and the operational cost of the Projects had been directly charged to that Project without apportioning between the respective Projects. As a result, allocations amounting to Rs 39.59 million made under the component of incremental cost of this Project had remained unutilized entirely as at 31 December 2015.

2.2.3 Non - Compliance with Laws, Rules and Regulations

According to the Clause No.45.1 (a) of the Special Conditions of the Consultancy Agreement, an advance payment of US\$ 193,782 equivalent to Rs.25.39 million and Rs 19.37 million representing 15 per cent of the value of the contract required to be recovered in 08 equal installments from the monthly consultancy payments from 5 to 12 months of the contract period. Accordingly, the mobilization advance should be fully recovered by November 2015. However, the mobilization advances had not been recovered by the Project eventhough the consultancy fees amounting to Rs 204.51 million had been paid by the Project as at 31 December 2015. Further, the guarantee bonds submitted thereon by the Consultant had been expired on 30 November 2015.

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 2015 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Annual Estimates for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	5.00	659.00	201	1.3	150.71	1.48	195.47
GOSL	1.08	142.34	5	-	5.00	-	5.00
	<u>6.08</u>	<u>801.34</u>	<u>206</u>	<u>1.3</u>	<u>155.71</u>	<u>1.48</u>	<u>200.47</u>

3.2 Physical Progress

The following observations are made.

- (a) The main contract for providing of consultancy services for screening, feasibility study and detailed engineering design of 200 kilometres of national highways linking the Southern Expressway was awarded to a foreign consultancy firm at a cost US\$ 2.27 million equivalent to Rs. 461.61 million had been commenced on 09 December 2014 and scheduled to be completed on 09 June 2016. According to the progress reports 60 per cent of works had been completed as at 31 December 2015.
- (b) Further, other Consultants namely Bridge/Structure Engineers, a Highway Engineer and an Engineer for Transport Planner had been appointed as individual Consultants at remunerations aggregating Rs.51.87 million to support to the main contractor and expected to complete the works assigned to them by 31 March 2016. However, the works assigned to a Bridge/Structure Engineer had reported only 30 per cent of physical progress at the end of the year under review.

3.3 Contract Administration

It was observed that the request on exemption on Value Added Taxes had been made from the Department of Inland Revenue by the Project only on 19 May 2015 with delays of 05 months eventhough consultancy works were commenced on 09 December 2014. As a result, a sum of Rs. 6.78 million and Rs.1.23 million on Value Added Taxes and Nations Building Tax respectively had been paid by the Project.