

Southern Transport Development Project - 2015

The audit of financial statements of the Southern Transport Development 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. The Project is implemented under the Loan Agreements No.BLA201011 for Package 1 and No.BLA201012 for Package 2 dated 17 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Export and Import Bank of China.

1.2 Implementation, Objective, Funding and Duration of the Project

According to the Loan Agreements of the Southern Transport Development Project, then Ministry of Highways and Ports, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to assist the development of the economy of the Southern Province by encouraging growth in industries, tourism, fisheries and agriculture by connecting the access roads to the first access controlled highway of Sri Lanka. As per the Loan Agreements, the estimated total cost of the Project of 126 kilometres from Kottawa to Godagama amounted to US\$ 661.14 million and out of that US\$ 138.21 million or 20.9 per cent was agreed to be financed by the Export and Import Bank of China to construct 30.25 kilometres of the Expressway from Pinnaduwa to Godagama. Details of the overall sources of funds for the construction of the Southern Expressway are shown below.

Lending Agency	Amount Agreed	Percentage
	US\$ million	%
Asian Development Bank	186.00	28.13
Japan Bank for International Corporation	103.00	15.58
Nordic Development Fund	5.40	0.82
Swedish International Development Association	0.80	0.12
Export and Import Bank of China	138.21	20.90
GOSL	227.73	34.45
Total	<u>661.14</u>	<u>100.00</u>

The Southern Expressway from Kottawa to Pinnaduwa in Galle had been opened for general public on 27 November 2011 and the section of the Expressway from Pinnaduwa to Godagama in Matara was opened on 16 March 2014. Upon completion of the construction works, the Road Development Authority had decided to utilize the savings of the Loans of Rs.4.4 billion approximately for the rehabilitation of 14 roads which have direct or indirect connectivity to the Southern Expressway and 02 bridges. The activities of the Project are expected to be completed as at 31 December 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 the 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 identification of the purchases made out of the Loans etc.
- d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- e) Whether the funds, materials and equipment supplied under the Loans 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 Agreements 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 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 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 Agreements had been complied with.

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 utilization of funds during the year under review and up to 31 December 2015 are shown below.

Sources	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year 2015	Funds utilized during the year 2015 up to 31 December 2015	
	US\$ million	Rs. million		Rs. million	Rs. million
China EXIM	138.21	15,895	4,313.00	4,307.00	14,925
Bank	24.39	2,805	118.50	118.40	3,359
GOSL	<u>162.60</u>	<u>18,700</u>	<u>4,431.50</u>	<u>4,425.40</u>	<u>18,284</u>

3.2 Physical Performance

The following observations were made.

- (a) According to the information received, the Road Development Authority had initially decided to rehabilitate 06 other national roads and 02 bridges in the Southern Province to utilize the savings made on estimated cost of construction of the section of the Expressway from Pinnaduwa to Godagama. Therefore, a Memorandum of Understanding had been signed on 28 January 2014 with the contractor who engaged for the construction of the section of the Expressway from Pinnaduwa to Godagama and awarded the contract at a cost of Rs. 3,875.7 million. The Secretary of the Ministry

of Higher Education and Highways had explained that the Lending Agency had instructed to treat the respective additional works as the variations of the main contract and awarded it to the same contractor without changing the provisions of the contract agreement. According to the information received, the rehabilitation works of such national roads and bridges were substantially completed as at 31 December 2015.

- (b) Further, a sum of Rs. 19.30 million had also remained as savings of the cost of road rehabilitation works as at 31 December 2015, due to depreciation of Sri Lanka Rupees against US Dollar and the Road Development Authority had subsequently decided to utilize such savings to rehabilitate 08 other provincial roads in the Southern Province. The rehabilitation works of such roads had been completed as at 30 June 2016.

3.3 Contract Administration

The following observations were made.

- (a) According to the progress reports, the rehabilitation works of 06 national roads in the Southern Province had been substantially completed as at 31 December 2015 with delays ranging from 01 month to 21 months. The Secretary to the Ministry of Higher Education and Highways had explained that there was no provision in the Memorandum of Understanding to recover liquidated damages on delays in completion of road rehabilitation works and action will be taken to recommend extensions of time thereon.
- (b) It was revealed at the physical verification made by the auditors in July 2016 that the rehabilitation works of 02 kilometres of the Kaluwella - Karapitiya - Thalagaha Road had been curtailed by the Project due to disputes with the Galle Municipal Council. Further, it was observed that the telephone posts required to be removed at the deep slope of the section from 04+255 kilometre to 04+275 kilometre of Wandurabe - Mapalagama Road had not been removed even after the completion of the rehabilitation works. Therefore, security measures were not thereon adhered.
- (c) It is observed at the site visits that the cover stabs of the expansion joint of the upper sides of the Godagama Bridge had not been properly fixed and nearly 06 inches gaps were remained. Further, cracks appeared on the surface of the Bridge at several locations.
- (d) According to the quality test reports on core samples and concrete layers, the compaction of the carriage ways and concrete structures of Wandurabe- Mapalagama Road, Yakkalamulla - Imaduwa Road and Kaluwella - Thalagaha Road were not achieved with standard requirements in several locations. Eventhough the deductions had been made thereon from the payments to the contractors, the durability of the condition of the roads would be affected due to the above mentioned failures.

3.4 Fruitless Transaction

Interest amounting to Rs. 5.23 million had been spent as at 31 December 2015 by the Project due to delays in settlement of compensation on lands acquired for rehabilitation of roads.