

OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project - 2016

The audit of financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project for the year ended 31 December 2016 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. 15111PB dated 10 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Ports, Shipping and Highways, 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 upgrading 65.45 kilometres of key highways in Colombo suburbs and reconstructing of Narahenpita-Nugegoda Bridge. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 94.99 million equivalent to Rs.12,347.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017.

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 the 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 Deficiency

It was observed that a sum of Rs. 6.94 million had been spent to carry out the works under the other projects namely Road Network Improvement Project and Western Province National Highways Project and such expenses had been accounted under the cost on land acquisition.

2.2.2 Non-Compliance with Laws, Rules and Regulations

The Project had recruited an outside Consultant without being applied bidding procedure and the approval of the Department of Management Services as required by the Paragraph 2.2 Management Services Circular No.1/2016 dated of 24 March 2016.

3. Financial and Physical Performance

3.1 Utilization of Funds

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
OPEC Loan	50.00	6,499.57	481.96	2.54	331.22	8.88	1,177.66
GOSL	44.99	5,847.80	1,690.00	-	162.38	-	2,115.03
Total	<u>94.99</u>	<u>12,347.37</u>	<u>2,171.96</u>	<u>2.54</u>	<u>493.60</u>	<u>8.88</u>	<u>3,282.69</u>

A comprehensive overall plan to cover the entire period highlighting the anticipated financial and physical target monthly, quarterly and etc. to be prepared to ensure the successful implementation of the Project within the specific time, such a plan had not been prepared. Further, progress report had not been prepared by the Project from July to December 2016 indicating the financial and physical targets achieved during year under review.

3.2 Physical Progress

According to the original scope of the Project, 65.45 kilometres of national roads in the Colombo suburbs were expected to be rehabilitated under 07 contract packages. Out of that the rehabilitation works of 12.07 kilometres of the Road approach to Sri Jayawardhanapura Hospital, Dematagoda – Wellampitya Road, Kollonna – Yakbedda Road, Welikada – Kohilawaththa Road, Mattakkuliya - Aluthwaththa Road and Mattakkuliya Central Road under 02 contract packages had been completed on 15 July 2016. The contracts for the rehabilitation of 49.54 kilometres of Kottawa - Thalagala Road, Kotte – Bope Road, Orugadawaththa – Ambathale Road, Walgama – Diyagama Road, Moratuwa- Piliyandala Road, Nawinna – Borelesgamuwa Road and Pliyandala – Maharagama Road had not been awarded even as at 31 December 2016, due to various reasons such as delays in land acquisition, obtaining of required approvals etc..Further, the widening of bridge No. 2/1 on

Narahenpita - Nawala- Nugegoda Road (Nawala Bridge) had been completed and handed over to the Road Development Authority on 10 March 2015.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that rehabilitation works of 2.41 kilometres of Nawinna-Boralesgamuwa Road had been deleted from the original scope of works. However, valid reasons thereon had not been explained for audit.

- (b) According to the information received, 1,941 plots of private land and 502 plots of crown lands had been acquired as at 31 December 2016 and a sum of Rs.1,469.17 million had been paid as compensations thereon. However, the ownership of 2,668 plots of lands had been transferred to the respective Divisional Secretaries as at 31 December 2016 in terms of Section 44 of the Land Acquisition Act.