

## **OPEC Funded Road Network Development Project -2016**

-----

The audit of financial statements of the OPEC Funded Road Network Development 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. 1452P of 08 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the OPEC Fund for International Development (OFID).

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

According to the Loan Agreement of the Project, then Ministry of Ports, Shipping and Highways, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are improvement of road network connectivity as an integral part of Sri Lanka's Development Policy Framework so as to meet the rapidly growing demands of the transport sector by upgrading 202 kilometres of national highways and reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 62.21 million equivalent to Rs.7,092.77 million and out of that US\$ 40 million equivalent to Rs.4,560 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 16 January 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 the 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 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 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,

(d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(e) the financial covenants laid down in the Loan Agreement 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 the utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for financing as per 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
OFID	40.00	4,560.00	1,000	5.90	860.46	30.65	4,299.57
GOSL	22.21	2,532.77	100	-	62.63	-	159.27
	<u>62.21</u>	<u>7,092.77</u>	<u>1,100</u>	<u>5.90</u>	<u>923.09</u>	<u>30.65</u>	<u>4,458.84</u>

#### 3.2 Physical Progress

According to the work plans of the Project, it was scheduled to complete the rehabilitation works of 63.89 kilometers of 07 national roads in the Central, Southern, Sabaragamuwa and Western Provinces and a bridge of No.3/2 at Kegalle - Polgahawela Road in the Sabaragamuwa Province. However, the rehabilitation works of 03 roads of 36.57 kilometers in Sabaragamuwa and Western Provinces had been completed as at 31 December 2016. However, the contract for rehabilitation works of the Section from 0+420 kilometre to 3+050 kilometre of Peradeniya - Badulla - Chenkalady Road had been awarded only on 02 June 2017 after lapse of 41 months from the date of commencement of the activities of the Project.

#### 3.3 Contract Administration

It was observed that the need of rehabilitation works of 11.7 kilometres of Polgahawela - Kegalle Road had been identified at the initial stages and a sum of Rs. 2.02 million had been spent as survey charges and incentives etc. However, rehabilitation works of the road had not been initiated even as at 30 June 2017.

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

The following observations are made.

- (a) It was observed that the contractor involved in the rehabilitation works of Galle - Deniyaya - Madampe Road and Rakwana to Madampe Road had submitted an additional claim of Rs. 245 million on 28 September 2016, even though the rehabilitated roads had been handed over to the Road Development Authority on 26 September 2015. Further, the contract for the consultancy services had also been completed by 30 June 2016.
  
- (b) A sum of Rs.1.55 million had been transferred to another project to meet the costs on salaries and allowances of the local Consultants who recruited by the respective project without the approval of the Department of Management Services.