

Badulla-Chenkaladi Road Improvement Project - 2017

The audit of financial statements of the Badulla-Chenkaladi Road Improvement Project for the year ended 31 December 2017 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 the Loan Agreements No. 1661P and 10/639 dated 26 June 2015 and 30 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development and the Saudi Fund for Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Higher Education and Highways presently, Ministry of Highways and Road Development and Petroleum Resources Development is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the connectivity of Eastern Province with Uva Province and Central Province enabling the improvement of transportation and enhancing the economic activities in the region by rehabilitation of 147 kilometres of the road from Badulla to Chenkaladi of Peradeniya-Badulla-Chenkaladi Road. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 140 million equivalent to Rs.18,200 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by the OPEC Fund for International Development and US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by the Saudi Fund for Development. The balance of US\$ 20 million is expected to be financed by the Government of Sri Lanka. The activities of the Project are expected to be completed by March 2019.

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 Loans, etc.
- (d) Whether the withdrawals under the Loan 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, and
- (h) 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, 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 submitted could be fairly relied upon to support the direct payments in accordance with the requirements specified in the Loan Agreements.

- (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 Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

The balance amounting to Rs. 1.20 million shown in the financial statements as payable to the Road Development Authority was not agreed with the corresponding balance of Rs. 869,260 shown in the financial statements of the Project for the year ended 31 December 2017.

3. Financial and Physical Performance

3.1.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

| Source | Amount agreed for financing in the Loan Agreements | | Allocation made in the Budget Estimate for the year under review | Funds utilized | |
|--------|--|----------------------|--|------------------------------|------------------------|
| | US\$ million | Rs. million | | during the year under review | up to 31 December 2017 |
| | US\$ million | Rs. million | Rs. million | Rs. million | Rs. million |
| OFID | 60 | 7,800 | 1715 | 1,685 | 1,685 |
| SFD | 60 | 7,800 | - | | |
| GOSL | <u>20</u> | <u>2,600</u> | <u>400</u> | <u>400</u> | <u>1,168</u> |
| | <u>140</u> | <u>18,200</u> | <u>2,115</u> | <u>2,085</u> | <u>2,853</u> |

It was observed that a comprehensive detailed action plan highlighting financial and physical targets in monthly, quarterly, biannually etc. covering entire period of the Project to achieve the targets within the period of the Project had not been prepared and implemented.

3.2 Physical Progress

The following observations are made.

- (a) The rehabilitation works of the section of the road of 60 kilometres from Badulla to Bibile of Peradeniya-Badulla-Chenkaladi Road had been commenced in January 2017 under 03 contract packages at an estimated cost of Rs.10,500 million. The physical progress of the rehabilitation works of the respective section of the Road had remained slow at a range from 1.8 per cent to 7.8 per cent as at 31 December 2017, due to delays in commencement of the rehabilitation works under the contracts.

- (b) The Project had spent a sum of Rs.526 million for shifting of utilities without entering into agreements with the Ceylon Electricity Board, Sri Lanka Telecom and National Water Supply and Drainage Board. However, the shifting of electrical, telephone lines and poles had shown slow progress of 24 per cent and 16 per cent respectively as at 31 December 2017 whilst no progress had been reported on shifting of water supply and drainage lines.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) According the information received, a sum of Rs. 1,488.70 million had been paid to the contractors as mobilization advances during the year 2017 for all contract packages. However, an overpayment of Rs.456.80 million had been made, due to typographical error in computing of advances including the provisional sum items and contingencies, contrary to the paragraph 5.4.4 (1) of the National Procurement Guideline.
- (b) The Project had not taken action to enter into the agreements with the contractors to remove 6,487 trees at the section of the Road from Badulla to Bibile, eventhough a sum of Rs. 8.10 million had been paid thereon. The details relating to handing over of logs of 2,174 trees removed up to end of the year under review to the Timber Corporation had not been furnished to audit.
- (c) Eventhough a sum of Rs.21 million had been paid to the contractors as a lump sum payments stipulated in the Bill of Quantities to obtain insurance policies, it was proved that only a sum of Rs.4.80 million had been spent by the respective contractors thereon.
- (d) The approval of the Consultants had not been received even as at 31 May 2018 for the Environment Safety Plan prepared by the contractor as per the Project Quality Assurance Plan.

3.4 Issues on acquisition of lands

The Project had targeted to acquire 5,411 plots of land up to 31 December 2017 for the road construction works and compensations amounting to Rs.13.30 million had been paid to acquire 40 plots of land as at 31 December 2017. Further, the interest amounting Rs.3.80 million had been paid on delays in settlement of claims on 38 plots of lands.