

Southern Transport Development Project - 2017

The audit of the amalgamated financial statements of the Southern Transport Development 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. The Project was implemented under the Loan Agreements No. 1711-SRI(SF), No. 2413-SRI, No. SL-P-70, No.SL-P-92, NDF 324, No.BLA201011 and No.BLA201012 entered into between the Democratic Socialist Republic of Sri Lanka, the Asian Development Bank, Japan Bank for International Corporation, Nordic Development Fund Loan and Export 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, 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 to enhance the economic condition of the Southern Province by encouraging industries, tourism, fisheries and agriculture sectors. The output of the Project was the first access controlled highway of Sri Lanka with the length of 126 kilometres, connecting Kottawa in the Western Province to Matara in the Southern Province with an access road to connect the City of Galle. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 661.14 million. Details of the overall sources of funds for the construction of the Southern Expressway are shown below.

Lending Agency	Amount Agreed US\$ million	Percentage %
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
Government of Sri Lanka	227.73	34.45
Total	<u>661.14</u>	<u>100.00</u>

The section of the Southern Expressway of 95.05 kilometres from Kottawa in the Western Province to Pinnaduwa in the Southern Province had been opened for the use of general public on 27 November 2011. Other section of the Expressway from Pinnaduwa to Godagama in the Southern Province of 30 kilometres was opened for the use of general public on 16 March 2014. Upon completion of the construction works, the Road Development Authority had decided to utilize the savings of the Loans amounting to Rs.4.40 billion for rehabilitation works of 14 national and provincial roads which have direct or indirect connectivity to the Southern Expressway and reconstruction works of 02 bridges in the Southern Province. The activities of the Project are expected to be completed as at 31 December 2016. However, the operations of the Project had been continued even up to 31 December 2017 and financial statements thereon had been submitted for audit.

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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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 Agencies, 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 Loan etc,
- d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,

- f) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, 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 paragraphs 2.2 of this report, I am of the 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.

2.2 Comments on Financial Statements

2.2.1. Presentation of the Financial Statements

The financial statements of the Project for the year under review had been presented with amalgamation of the financial statements prepared upto 31 December 2015 separately under the Loan Agreements entered into with 03 Lending Agencies, without considering the matters such as closure of the periods of respective Loans and the completion of the construction works of the Expressway on 16 March 2014. Further, actions had not been taken to wind up the accounts even as at 31 December 2017, eventhough the process of handing over of properties, equipments and motor vehicles etc procured by the Project to the Implementing Agency had been completed.

3. Financial and Physical Performance

3.1 Utilization of Funds

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

Sources	Funds Utilized				
	Amount agreed for financing in the Loan Agreement		Budgetary provision for the year 2017	during the under review year	up to 31 December 2017
	US\$. million	Rs. million	Rs. million	Rs. million	Rs. million
Asian Development Bank	186.00	21,392	-	-	20,581
Japan Bank for International Corporation	329.00	43,766	-	-	43,635
Nordic Development Fund	5.40	621	-	-	583
Swedish International Development Association	0.80	92	-	-	75
China EXIM Bank	138.21	15,895	-	-	16,965
Government of Sri Lanka	227.73	26,107	56.7	59.7	38,011
Total	<u>887.14</u>	<u>107,873</u>	<u>56.7</u>	<u>59.7</u>	<u>119,850</u>

As mentioned in the above, the activities of the Project had been continued upto 31 December 2017, even after completion of the construction works of the Expressway in order to utilize the savings of the allocations made under the Loans amounting to Rs 4.40 billion. Further, out of that a sum of Rs.1,570 million had remained unspent at the date of closing of the Loan Agreement of 30 June 2016 entered into with Export and Import Bank of China and it was transferred to the Bank Account of the contractor who engaged in Expressway construction works carried out from Pinnaduwa to Godagama. According to the information received, a sum of Rs 13 million had remained unspent as at 31 December 2017 in the Bank Account of the respective contractor.

3.2 Physical Performance

As mentioned in the above, the Road Development Authority had decided to rehabilitate 46.70 kilometers of 06 national roads and 56.50 kilometers of 14 provincial roads and widening of reconstruction of 02 bridges of in the Southern Province and rectification works for slope failure at Kokmaduwa in the southern section of the Expressway to utilize the unspent balances aggregating Rs.4.40 billion. According to the progress reports, the rehabilitation works of 23.20 kilometres of 07 national and provincial roads, reconstruction works of bridges and rectification works of slope failure at Kokmaduwa had been completed as at 31 December 2017.

3.3 Contract Administration

It was observed that the 198 variation orders at a cost of Rs 5,432 million related to construction of Expressway from Pinnaduwa to Godagama had been approved and settled as at 31 December 2017, contrary to the provisions made under the Section 13.1 of Condition to Contract. As a result, the initial estimated cost of the contract amounting to Rs.5,017 million for the construction of respective section of the Expressway had been exceeded by 107 per cent.

3.4 Matters in Contentious Nature

It was observed that a sum of Rs 08 million had been paid during the period from January to October 2017 to the contractor under several variation orders after being completed the rehabilitation and reconstruction works of national and provincial roads and a bridge and handed over to the Road Development Authority. Further, rectification works at Kokmaduwa had been completed and handed over in May 2017 and bills valued at Rs.20.50 million had been settled in July and October 2017. However, the reasons for making such additional payments had not been explained for audit.

3.5 Fruitless Transaction

The following observations are made.

- (a) According to the sub clause 4.2 of the general condition of the contract documents, the performance bonds are required to be obtained at his own costs. However, a sum of Rs.21.40 million spent by the contractor relating to the performance bonds had been reimbursed by the Project.
- (b) It was observed that compensation aggregating Rs 313.30 million had been paid by Project the as at 31 December 2017 due to delays caused to settle the compensation payment on land acquisitions.

3.6 Closure of the activities of the Project

Even though the construction works of the Expressway had been completed as at 31 March 2015, the Project Monitoring Unit had been functioning even as at 31 December 2017 without taking action to transfer the unspent proceeds of the Loan to the General Treasury and wind up the activities of the Project Monitoring Unit. Further, a sum of Rs.46 million had been spent by the Project up to end of the year under review to meet the costs related to the Project Management Unit. Further the period of the Appointments Letters of the staff members of the Project Management Unit had not been amended to extend the period of the appointments.