

## **Southern Road Connectivity Project (Expressway Connectivity Improvement Plan) - 2017**

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The audit of financial statements of the Southern Road Connectivity Project (Expressway Connectivity Improvement Plan) 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 Article of Loan Agreement No. 3028 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

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According to the Loan Agreement of the Project, then Ministry of Ports and Highways, presently the Ministry of Highways and Road Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are screening, feasibility study and detailed engineering design of national highways linking the expressway network. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 6.08 million equivalent to Rs.801.34 million and out of that US\$ 05 million equivalent to Rs.659 million was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 22 August 2014 and scheduled to be completed by 30 June 2019.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 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 opening and closing balance, withdrawals from and replenishments to the Special (Dollar) Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
  - (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
  - (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
  - (f) the financial covenants laid down in the Loan Agreements had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Accounting Deficiency

As a practice, the Project had not taken adequate action to assess the expenses remained payable at the end of the financial year and made provisions thereon in the financial statements. Therefore, the building rents amounting to Rs.6.52 million and Rs.4.21 million remained payable at the end of the years of 2016 and 2017 respectively had not been brought to the financial statements.

## 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 2017 are shown below.

Source	Amount agreed for financing as per the Loan Agreement		Allocations made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	5.00	659.00	270	0.45	69.07	3.59	548.69
GOSL	1.08	142.34	15	-	3.26	-	27.66
<b>Total</b>	<b><u>6.08</u></b>	<b><u>801.34</u></b>	<b><u>285</u></b>	<b><u>0.45</u></b>	<b><u>72.33</u></b>	<b><u>3.59</u></b>	<b><u>576.35</u></b>

The following observations are made.

- (a) According to the above information, out of total allocation of US\$ 05 million equivalent to Rs.659 million made by the Lending Agency, only a sum of US\$ 3.59 million equivalent to Rs.548.69 million representing 83 per cent of the total allocation had been utilized as at 31 December 2017 after lapse of 3 ½ years from the commencement of the activities of the Project. It was observed that the progress on the utilization of funds allocated to implement the activities of the Project was remained slow, as a result of a comprehensive detailed action plan highlighting financial and physical targets in monthly, quarterly, biannually etc. covering entire period with fixing responsibilities to achieve the targets within the period of the Project had not been prepared and implemented.
- (b) The detailed budget for the year under review based on the work schedule of the Project had not been prepared. Therefore, a sum of Rs.3.26 million had only been utilized, out of the allocation amounting to Rs.15 million made in the Budget Estimate for the year under review.

### **3.2 Physical Progress**

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According to the information received, the main contract awarded by the Project to a foreign firm on consultancy services for screening, feasibility study and preparation of detailed engineering designs for 200 kilometres of national highways linked to the Southern Expressway on 09 December 2014 at a cost of US\$ 3.48 million had been completed and submitted all deliverables on 31 August 2016. At the same time, 03 consultancy contracts for bridge structural engineering, highway engineering and transport planning awarded in November 2014, as a support to the main Consultant had also been completed as at 31 December 2017. Further, other 04 additional consultancy contracts for the purpose of application of international highway engineering practices, bridge and structural engineer practices and traffic planning and forecast analysis and transport planning etc, had also been awarded at a cost of Rs.68.6 million to other firms of Consultants. It was observed that the reports on consultancy services for international highway engineering practices, bridge and structural engineer practices had been submitted on 31 December 2017 with delays more than 17 months. Further, the reports on consultancy services on traffic planning and forecast analysis and transport planning purposes required to be submitted by 31 December 2017 had not been submitted even as at 31 May 2018. As a result, the several components of the National Road Master Plan of the Road Development Authority could not be completed, due to lack of inputs expected from the respective Consultants.

### **3.3 Contract Administration**

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According to the consultancy agreements, the road length of 413.79 kilometres were subjected for screening, feasibility study and detailed engineering design of national highway linking to the expressway network. Out of that the detailed designs only the length of 200 kilometres of national roads required to be carried out during the period of the Project. However, 72.59 kilometres of national roads which was not in the scope of work originally decided had been selected and completed by the Consultant for screening, feasibility studies for detailed engineering design purposes.

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

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The Value Added Tax amounting to Rs.22.80 million and Nation Building Tax amounting to Rs.4.15 million had been paid as at 31 December 2017 on the payments made to the Consultants. However, the Implementing Agency had not taken steps to exempt local taxes on the payments to the foreign Consultants. Further, income tax amounting to Rs.12.10 million had also been paid by the Project on behalf of the Consultants based on their salaries.