Saudi Funded Road Network Improvement Project - 2019

The audit of financial statements of the Saudi Funded Road Network Improvement Project for the year ended 31 December 2019 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. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to rehabilitate and improve 131.50 km of 06 road sections in the Central, Eastern, Sabaragamuwa, Western and North Western Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US$ 81.75 million equivalent to Rs.10,628 million and out of that US$ 60 million equivalent to Rs.7,800 million was agreed to be financed by Saudi Fund for Development. The Project commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project’s financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Even though a sum of Rs.445 million had been disbursed to the Project by the Lending Agency for the year 2019 as per the External Resources Department report, only a sum of Rs.218 million had been accounted as Loan. As a result, Loan account had been understated by Rs.227, million in the financial statements.	Understatement of assets and liabilities.	Total disbursement for the project for year 2019 was Rs.488,291,683.34, but the Department of State Accounts has only accounted Rs. 218,455,012.00 for the year 2019.	Actual loan disbursements should be accounted by the project.
(b)	Legal action had been taken by a third party requesting unpaid survey charges amounted to Rs.1.8 million on land acquisition process of Dehiovita - Daraniyagala - Noori Road since 2015. However, the contingent liability arisen on that had not been disclosed in the financial statements as per Sri Lanka Public Sector Accounting Standards No.08.	Possible liabilities may not present in the Financial Statements.	Noted and action will be taken to provide this amount as a liability in year 2020.	Contingent liabilities should be disclosed as per Sri Lanka Public Sector Accounting Standards No.08.
(c)	Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision had not been made for the delayed interest need to be paid on land acquisition as at 31 December 2019.	Understatement of assets and liabilities.	It is noted to accrue the interest for the compensation paid in the Financial Statement in year 2020.	Provisions should be made as per Sri Lanka Public Sector Accounting Standards No 08.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Component	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Rehabilitation and Improvement of Roads	Reconstruction and improvement of 53 +740 to 58 +000 km section of Naula Town on the Kandy-Jaffna road was commenced on 04 December 2018. The work is expected to be completed by 4 September 2020, however as at 31 December 2019, only 63 percent progress had been achieved.	Possibility to increase the cost of the project due to poor planning. .	The Saudi Fund for Development has granted approval to utilize the balance amount of loan to improve one road section & three bridges.	Action should be taken to speed up the balance rehabilitation of roads works.
(b)	Rehabilitation and Improvement of Bridges	Reconstruction of two bridges on the Orugodawatta - Ambatale road was commenced on 05 June 2019 and 17 January 2020 without commencement work at the beginning of the project. The total expenditure of the Project Management Unit up to 31 December 2019 was Rs. 78.1 million, of which Rs. 23.7 million was relevant from January 2016 to December 2019. If the construction of the above bridges had been carried out at the beginning of the project, such expenditure could have been avoided.	Possibility to increase the cost of the project due to poor planning.	According to original work scope it had been programmed to start 06 roads and balance loan amount was identified later part of the above projects. Accordingly donor concurrence was seeked to implement addition 04 contracts.	Action should be taken to speed up the balance rehabilitation of roads and bridges works.

3.2 Contract Administration

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs. 2.4 million had been paid additionally to the contractors to reimburse the cost of performance security bonds obtained by the contractors.	Undue advantage for contractors	As per the Condition of Contract, Contractor has to provide Performance Security on his own cost. However usually BOQ item provides for the same and, if not, contractor has to include/distribute this cost in to other BOQ items.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.
(b)	Though the land acquisition process commenced in the year 2012, the process is still in progress. It was observed that an amount of Rs. 67.4 million had been paid as compensation and Rs. 3.2 million as delay interest for 5 plots of Lands out of 1449 plots of lands as at 31 December 2019. Further, the project had not registered any plots of lands under Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even as at 31 December 2019.	Possibility to increase the interest costs on compensation, due to delays in settlements of claims.	Lands are to be registered after settlement of interest payment due for LARQ and there is a delay on the same at relevant Divisional Secretariat offices and reminders are already sent to them to expedite the work.	Need to take prompt actions to settle the compensation and avoid additional costs thereon.