OPEC Funded Road Network Development Project - 2019

The audit of financial statements of the OPEC Funded Road Network Development 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports, Shipping and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to constitute as an integral part of Sri Lanka's Development Policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the 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$ 62.46 million equivalent to Rs.7,121.32 million and out of that US$ 40 million equivalent to Rs.4,560 million was agreed to be financed by OPEC Fund for International Development and the balance of US$ 22.46 million equivalent to Rs.2,561.32 million was required to be provided by the Government of Sri Lanka. The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended in 02 instances up to 31 December 2019.

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 Qualified 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	Comments of the Management	Auditor's Recommendations
(a)	Provision for payment of interest Rs.18 million had not been made on delay in settlement of compensation on 126 plots of land in the financial statements.	Understatement of assets and liabilities.	It is noted to accrue the interest for the compensation paid in the Financial Statement in the year 2020.	Provisions should be made according to the Sri Lanka Public Sector Accounting Standard No.08.
(b)	According to the financial statements and the records maintained by the General Treasury, total expenditure from the proceeds of the Loan was Rs.67 million. However, as per the records of External Resource Department, it was Rs.105 million. The reasons for these differences had not been submitted to the audit. In addition to that, the project had recorded a sum of Rs.13 million as disbursable foreign aid under liabilities instead of being recorded under the Loan in the financial statements as at 31 December 2020.	Understatement of assets and liabilities.	Not given	Action should be taken to reconcile the loan balances and record all the proceeds from the loan in the financial statements.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
As per the monthly progress report for the month of December 2019, the actual physical progress and design progress of the road cross section was only 56.61 per cent and 65 per cent consecutively.	Possible increase of costs, due to delays in completion of construction works.	Agreed. Contractor has not achieved targeted progress mainly, due to lack of material supply.	Action should be taken to speed up the rehabilitation works.

3.2 Contract Administration

No	Audit Issues	Impacts	Comments of the Management	Auditor's Recommendation
(a)	Even though, it had been elapsed four years and three months from the completion date of rehabilitation of A017 – Galle –Deniyaya-Madampe Road section from Rakwana to Madampe, out of 1,468, only 126 lots of land had been registered under Road Development Authority up to 31 December 2019.	Possibility to misuse of lands.	Lands are to be registered after settlement of interest payments due for LARC and there is a delay on the same at relevant Divisional Secretariat offices and reminders are already sent to them to expedite the works.	Action should be taken to speed up the land acquisition process.
(b)	The Peradeniya - Badulla Chenkaladi road section was commenced on 09 June 2017 and scheduled to be completed on 08 June 2018. However the project period was extended by 77 days. As a result of this extension, an additional Rs. 2.3 million was spent on basic and general items and Rs. 2.6 million on consulting supervision expenses.	Possibility to incur additional cost due to delay.	It had been granted 77 days' time extension due to delay in possession of site from 0+920km – 2+630km due to land acquisition delay.	Action should be taken to speed up the rehabilitation works and complete with minimal delays.
(c)	As per the Section 8.7 of the General Conditions of the Contract, delay damages of Rs. 40.8 million had not been charged from the Contractor.	Undue advantages to the contractor.	Action had been taken to deduct delay damages (LD) and Rs.27 million was recovered up to 31.05.2019. However, contractor has requested to defer the LD recovery and also release already recovered amount under LD	Need to be influence the contractors to achieve the time targets and avoid the cost increase and extension of the period of the contracts.
(d)	The bill of Quantities value was Rs. 465,000 for the maintenance of the road without potholes and Rs.1.6 million had been paid. However, due to public protests over the slow progress of the project, the Kadgannawa Executive	Possibility to increase the cost of the project.	Approval was obtained from Chairman, Road Development Authority for this maintenance work and the cost will be	Need to monitor the maintenance of the existing roads closely.

	Engineer's Office had estimated to pay another Rs. 9.5 million and paid Rs. 7.7 million this payment was 485 per cent of the maintenance value of the existing road under the agreement and no prior approval had been obtained for such maintenance.		recovered from the contractor.	
(e)	As per the Sub Clause No.119.1 of Particular Specification, the insurance policies shall be maintained and valid through the period of performance of the contract. However, the contractor had not been extended for 3 insurance policies and the achieved physical progress also was only 56.61 per cent and 67.56 per cent as at 31 December 2019 and 31 May 2020 respectively.	Possibility to carrying out the constructions without having a coverage of insurance for Work, Workers and Third party.	Agreed. Contractor had been remaindered several instances to renew all insurances and validity of all insurances were extended till end of November 2020.	Need to obtain the renewals for all insurances timely.
(f)	The employer had not been charged the liquidity damages amount of Rs. 27 million from the contractor, without considering the Sub Clause 8.7 of General Conditions of Contract and the Consultant's recommendation. Eventhough the project had been provided such additional financial facilities to the contractor, the physical progress was increased only by 40.19 per cent from August 2018 to May 2020.	Possibility to have an additional financial facilities by the contractor.	Agreed.	Action should be taken to adhere to the conditions of the Construction Contracts.
(g)	Though it had been achieved 49.53 per cent of financial progress, the Project had not even commence to recover mobilization advance as at 31 December 2019 as per Sub Clause 14.2 of General Conditions of Contract.	Undue financial benefits to the Contractor.	Contractor has requested to differ recovery of advance payment until reach the project to significant progress. However, action has been taken to recover the same.	Action should be taken to recover the mobilization advances at the right time.

(h)	According to the sub clause14.3 and 14.6 of the Particular Condition of Contract, minimum monthly amount of Interim Payment Certificate to be submitted by the contractor was 3 per cent of the value of the contract. However, except the value of IPC for the month of December 2019, all other IPC's had been submitted less than required threshold.	Overrunning of cost on evaluation of interim payment.	Agreed.	It is required to adhere with the thresholds stipulated in the condition of contract in order to minimize the costs, time and undue favouration for the contractors.
(I)	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 to obtain performance security bonds at cost of respective contractor. Accordingly, a sum of Rs.1 million had been paid additionally to the contractors to reimburse the cost of performance security bonds obtained by the contractor of Peradeniya - Badulla Chenkaladi Road.	Undue advantage for contractors.	According to the sub clause 4.2 of 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 to other BOQ items.	Action should be taken to recover the over payment.
(j)	According to the Department of Railways, the estimated cost for shifting of level crossing at ch 0+580 was Rs.9.2 million and the consultant had been instructed to the contractor on 14 March 2018 to make the payment to get their services as early as possible. Though, it has been elapsed 2 years and 4 months after the payment had not been done even up to 31 December 2019. Though this situation is critically affected to the progress of the Project and no any action had been taken to speed up the function of the Project.	Possibility to delay in construction process and increase the cost of the project.	Agreed.	Action should be taken to speed up the utility shifting process.