

Badulla – Chenkaladi Road Improvement Project - 2020

The audit of financial statements of the Badulla –Chenkaladi Road Improvement Project for the year ended 31 December 2020 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 Agreements, then the Ministry of Higher Education and Highways, presently the Ministry of Transport and Highways is the Executing Agency and 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 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 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 2020 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 | Responses of the Management | Auditor's Recommendations |
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| (a) | The Project had not accounted 14 approved interim payment certificates relevant to project expenditure amounting to Rs.1,445.5 million for the year under review. As a result, work in progress and payable to contractors account had been understated by that amount. Further, mobilization advances and retention money payable account had been overstated by Rs.390.88 million and Rs.34.33 million respectively. | Agreed. The mentioned Interim Payment Certificates have already been taken to accounting records of the year 2021. | All the transactions for the financial year should be counted in the financial statements. |
| (b) | The provision amounting to Rs.272.22 million had not been made for 05 interim payment certificates for the month of December 2020 in accordance with the Sri Lanka Public Sector Accounting Standard No.08. As a result, work in progress, payable to contractors and retention payable had been understated by Rs.272.22 million, Rs.174.75 million and Rs.2.68 million respectively whereas mobilization advances had been overstated by Rs.94.78 million. | Referred Interim Payment Certificates have been received to the project after the financial year and after finalization of the Financial Statements. | Provisions should be made as per Sri Lanka Public Sector Accounting Standards No 08. |
| (c) | The Project had not accounted 04 approved interim payment certificates relevant to supervision consultancy expenditure for the months of November and December 2020. As a result, work in progress and payable to consultants had been understated by Rs.24.92 million. | Referred Interim Payment Certificates have been received to the project after the financial year and after finalization of the Financial Statements. | 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 observation | Responses of the Management | Auditor's Recommendations |
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| (a) | Rehabilitation and Improvement of Roads | Under the rehabilitation and improvement of OFID section, each contracts had been planned to cover length of 20 kilometers approximately. The physical progress relevant to the contract for the Package 01, Package 02 and Package 03 as at 31 December 2020 reported as 100 per cent, 77 per cent and 50 per cent respectively. | Agreed. | Action should be taken to speed up the balance rehabilitation of roads works. |
| (b) | Rehabilitation and Improvement of Roads | The progress of the Package 03 in OFID section was considerably low which reported as 50 per cent against the target progress of 100 per cent as at 31 December 2020 even after elapse of 03 years and 05 months from the commencement of construction works despite the original time for completion as per the agreement was 2 and half years. | As per the decision on 12 th July 2021, in the progress review meeting, contractor stopped the work at site and subsequently tender called for balance work by slicing the work into two packages in order to expedite the work and procurement are in progress. | Action should be taken to speed up the balance rehabilitation of roads works. |

3.2 Contract Administration

| No | Audit Issue | Responses of the Management | Auditor's Recommendations |
|-----|--|---|---|
| (a) | Despite the Engineer had issued "Notice to Correct" on 07 December 2020 to correct the poor performance of the Contractor for Package 03 of OFID section, any successful remedial action had not been taken by the Project to expedite and complete the works. | As per the decision on 12 th July 2021, in the progress review meeting, contractor stopped the work at site and subsequently tender called for balance work by slicing the work into two packages in order to expedite the work and procurement are in progress. | Successful remedial actions should be taken to expedite and complete the balance works. |

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| <p>(b) It was observed that, as at 31 December 2020, even half of the provisions made for earth works, sub bases, bases and shoulders, surfacing, bridges and other structures in the bill of quantities had not been utilized by the Contractor of Package 03 of OFID section and if it is considered the length of kilometers that the works carried out, shoulder works had been done only 6.58 per cent, ABC and prime coat as 32.11 per cent, embankment as 40 per cent and asphaltting as 30.79 per cent only.</p> | <p>The process of closer of the Contract with the existing Contractor is in progress.</p> | <p>Action should be taken to speed up the balance rehabilitation of roads works.</p> |
| <p>(c) According to the Sub Clause 14.6 of Particular Condition of the Contract, the certified work done of an interim payment certificate should be greater than 2 per cent of the value of the contract. However, there were 44 instances were observed where evaluation of Interim Payment Certificates below than the required threshold.</p> | <p>These payments were made to improve the Contractor's cash flows and for the benefit of the Project.</p> | <p>It is required to adhere with the thresholds stipulated in the condition of contract in order to minimize the costs, time and undue favoritism for the contractors.</p> |
| <p>(d) As per the loan agreement with the OPEC Fund for International Development, funds had not been allocated for land acquisition. However, a sum of Rs.1.6 million had been paid as at 31 December 2020 through interim payments made to the Consultant for a Land Acquisition Investigation Officer and to an Inquiring Officer involved in land acquisition and related activities. Those 02 positions were not included in the cadre of the Project Management Unit and it was observed that the aforesaid expenditure had been incurred without identifying exact cadre requirement for the Project Management Unit.</p> | <p>Due to slow progress of land acquisition work, one retired Divisional Secretary was appointed with the consent of the Division Secretary of that divisions and approval of the Ministry.</p> | <p>It is required to identify the exact cadre requirement for the Project Management Unit in future projects.</p> |