

Transport Connectivity and Asset Management Project - 2021

The audit of financial statements of the Transport Connectivity And Asset Management Project for the year ended 31 December 2021 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 Section II, B (3) and 4.09 (b) of the General condition of the Credit Agreement No.5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 Credit Agreement of the Project, then Ministry of Higher Education 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 strengthen the Road Development Authority's capacity for asset management and to implement a Design-Build-Maintenance (DBM) contract using an Output and Performance Based Road Contract (OPBRC) format to pilot management principles, on the selected road section from Ja-Ela to end of Chilaw town on Peliyagoda – Puttalam Road approximately 58 Km. As per the Credit Agreement No.5788, the estimated total cost of the Project was SDR 90.5 million equivalent to US\$ 125 million or Rs.18,125 million and the entire amount was agreed to be financed by the International Development Association. However, according to the Cabinet Decision No 18/1682/805/051 dated 15 August 2018, the initial scope of the Project had been changed. Accordingly, out of initial loan allocation US\$ 100 million equivalent Rs.14,500 million had been removed from the Project and had been allocated to the Ministry of Provincial Council, Local Government and Sports for improvements of the all Provincial roads. Out of the remaining balance, only a sum of US\$ 16 million equivalent Rs.2,320 million had been allocated to continue the activities of the Project and balance amounting US\$ 8.5 million equivalent to Rs.1,232.5 million had been transferred to the Road Maintenance Trust Fund. However, the total loan allocation for the Project had been again reduced to US\$ 9 million equivalent Rs.1,305 million, due to transferring of US\$ 7 million to COVID 19 response as per the request made by the Government of Sri Lanka on 06 May 2020. The Project commenced its activities on 30 June 2016 and restructured on 15 August 2018 and expected to be completed by 30 March 2023.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 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.

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

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 the 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 Non-Compliance with Laws, Rules and Regulations

Reference to the Rules and Regulations	Non-Compliance	Management Response	Auditor's Recommendation
Section 10 of the Employees Provident Fund Act No.1958	Although the normal contribution to the Employees Provident Fund is 8 per cent from Employees and 12 per cent from Employer, the Project had applied 10 per cent from Employees and 12 per cent from Employer contrary to the Employees Provident Fund Act No.1958.	Now, we are in the process that the EPF contributions will be accounted in the next month as stated in the Employees Provident Fund Act.	Action need to be taken to comply with the Employees Provident Fund Act No.1958.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2021		Audit Issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Units/percentage	Units/percentage		
1.Operationalizing Asset Management Support and Unit related Capacity Building.	48.47	39.4	Physical progress of the activity is behind the target by 9.07 per cent	Covid -19 pandemic situation causes for the delays.

2. Capacity Building, Training and Consultancies, Road Safety	18.00	9.35	Physical progress of the Covid -19 pandemic situation causes activity is behind the target by 8.65 per cent. for the delays.
3. Equipment	5.92	5.03	Physical progress of the Covid -19 pandemic situation causes activity is behind the target by 0.89 per cent. for the delays.

Response of the Management

Target as at 31 December 2021 was 72.39 per cent .The progress achieved as at 31 December 2021 was 53.78 per cet. The overall physical progress of the Project is behind the target by 18.61per cent.

Auditor’s Recommendations

Steps should be taken to increase the performance of the project to prevent the increase in project costs, due to increase in the general price level of the inputs and get the expected outcome of the project expeditiously.

3.2 Idle/ Underutilized Resources

Audit Issues

Management Responses

Auditor’s Recommendations

(a)	Out of World Bank credit facilities of US\$ 9 million equivalent to Rs.1,305 million, only US\$ 1.41 million equivalent to Rs.266 million representing 16 per cent of the total loan facilities had been utilized by the Project after laps of 4 years and 3 months. As a result, higher portion of balance amounting to US\$ 7.59 million is remained unutilized as at 31 December 2021.	Due to the change in the scope of project, the actual amount used in end of 31 st December 2021 was only Rs.266.19 million, which is equivalent to US\$ 1.414 million. The loan remaining unspent as at that date after experiencing two difficult years 2020 and 2021.	Action need to be taken to identify the balance activities and expedite activities to complete before expiration of loan facilities on 31 March 2023.
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| <p>(b) The cost of the office rent of Rs.5,878,000 had been equally divided by the Climate Resilience Improvement Project (CRIP) and Transport Connectivity and Asset Management Project (TCAMP) up to year 2020. Although the Climate Resilience Improvement Project had vacated form the building on 30 June 2021, the entire rent had been borne by the TCAM Project without taking action to reduce cost of the rent.</p> | <p>Agreed with the details mentioned in the Audit Report.</p> | <p>Action need to be taken to hand over additional space to the owner of the building and reduce the rent accordingly.</p> |
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3.3 Contract Administration

Audit Issues

According to the procurement plan for the year 2021, a sum of Rs.1,371 million value of 10 numbers of procurement activities had planned for the year 2021. However, amounting to Rs.430 million values of 5 procurement activities had only been commenced during the year under review. Accordingly, 05 activities valued aggregating Rs.941 million of the procurement plans had not been commenced by the Project even as at 31 December 2021.

Responses of the Management

As per the procurement plan 2021, 10 activities, amounting Rs.1371 million have been planned. Total Value of Award/ Complete contract Rs.430.

Auditor's Recommendations

Action need to be taken to accelerate the delayed activities and complete the scope of works on targeted dates.

3.4 Issues Related to Human Resources Management

Cadre Position	No of Posts			Response of the Management	Auditor's Recommendation
	Approved	Actual As at 31 December 2021	No. of vacancies/ excess		
Procurement Specialist,	01	-	01	Agreed with the details mentioned in the audit report. 06 vacancies were not filled by end of 2021 due to unavoidable circumstances as COVID pandemic and due to non-acceptance of appointments by the selected applicants.	Action need to be taken to recruit required staffs and complete the scope of works of the Project on scheduled dates.
Engineers PS-4	02	-	02		
GIT Analyst	01	-	01		
Image Analyst	09	08	01		