

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) – 2021

The audit of financial statements of the Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) for the year ended 31 December 2021 was carried out under my direction in the pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 4.2 of schedule 01 of the Financing Agreement No.5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA). 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 Amended Financing Agreement of the Transport Connectivity and Asset Management Project, then the State Ministry of Provincial Councils and Local Government presently Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments Affairs is the Executing Agency and Provincial Road Authorities in all provinces are the Implementing Agencies for the revised Component 02. The objectives of the project are Strengthen the capacity of the Road Development Authority of asset management and improve access and management framework for Provincial roads. As per Financing Agreement of the project, the total estimated cost of the Project was US\$ 125 million equivalent to Rs.21,875 million. As per amendment to the Financing Agreement of the project, the estimated total cost of the revised Component 02 was US\$ 109 million equivalent to Rs.19,075 million. The Project commenced its activities on 02 May 2019 and scheduled to be completed by 31 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, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 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 scepticism 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 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non- Compliances	Responses of the Management	Auditor's Recommendations
(a)	Cabinet Decision No.18/1682/805/0 51 and dated on 15 August 2018	Project Management Unit and Provincial Level Implementation Units had to be established by absorbing suitable staff available in the Ministry. It was observed that none of the – Ministerial Staff had been appointed to Project Management Unit.	Absorption of suitable Ministerial Staff for the Project Management Unit is not necessary requirement.	Need to comply with the Cabinet Decision.
(b)	Financial Regulations – 756 & 757	Annual asset/inventory verification had not been conducted for the year under review.	Annual asset/inventory verification is being done.	Asset / inventory verification should be conducted annually.
(c)	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Meeting of the Audit and Management Committees required to be held four times in the year. However, two meeting had been held during the year under review.	No comments.	The meetings of the Audit and Management Committees required to be held regularly.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	As per the agreed procurement plan included in restructuring paper, 37 contract packages had to be awarded as at 31 December 2019. However only 26 packages had been awarded as at 31 December 2021.	USD 70 million had been completed.	Action should be taken to expedite the works for completion of the project.
(b)	Construction/Development of SP 01,SP 02,NWP 01,EP 01 and EP 02 packages in phase 01 which had been awarded in 2019 had not been completed in due dates.	Accepted	-Do-

3.2 Matters in Contentious Nature

No	Audit Issues	Responses of the Management	Auditor's Recommendations
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(a)	According to Cabinet Decision No. 403/18/1682/805/051 dated August 15, 2018, in order to reduce the cost of the project, Project Management Units should be established in all provinces using the existing staff. However, Executive Engineers at the regional level were appointed as Assistant Resident Engineers of the project and maintenance costs of Rs. 170 million had been estimated in the BOQ and Rs. 119 million had been paid as at 31 March 2022. Further, a sum of Rs. 65 million had been paid for the provision of vehicle for these Assistant Resident Engineers until 31 March 2022 by including Variations of Contract Payment Bills, eventhough vehicles of the Executive Engineering office could be used for this project.	Assistant Resident Engineers' office would be maintained nearest to sites of large contracts like these World bank projects and treasury had approved the payment.	Need to comply with the Cabinet Decision.
(b)	According to the Circular No. PS/SP/ SB / Circular /06/2019 of 19 December 2019 issued by the Secretary to the President, although it was stated that high transaction costs in project management have to spend a lot of money as part of a project had been adversely affected for prudent government financial management and accountability, a sum of Rs. 145 million had been paid instead of using the existing resources without paying attention to the circular.	The project had been planned and consultants had been employed before issuing the referred circular.	Need to comply with the relevant circular.
(d)	In selection of consultants for the project, the selected candidates' bids did not mention transport facilities, vehicle reservations and the same was not mentioned in the procurement advertisement. However, the agreements signed with the REs included a condition that the vehicle is supplied. Hence a Continuous payment of Rs. 73 million had been paid to the contractors for providing vehicles, houses and furniture for REs till 31 March 2022.	Persons engaged in projects who have more than 20 year experience, know the process to be followed. Therefore, it had not been mentioned in bid documents and procurement advertisement.	Project must be taken to action to introduce Internal Control System.
(e)	As per the terms of the contract, only furniture and equipment related to the Residential Engineering Office should be handed over to the Line Ministry at the end of the contract. However, all furniture and equipment provided	Although Resident engineers' office furniture will be property of ministry, ARE office furniture is contractors'	Contract agreements should be prepared in order to avoid such expenditure.

to ARE Offices, RE and ARE Houses would be the property of the contractor. Accordingly, the ownership of the assets of Rs. 42 million paid by the government fund will be lost to the government, due to an error in the contract agreement. Therefore, the expenditure become loss to the Government.

property. It is not a mistake but a decision had been taken when preparing contract document.

3.3 Observations made on site visit

No	Audit Issue	Response of the Management	Auditor's Recommendation
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	Proper method with feasibility study had not been used to select roads to develop 04 roads among 12 roads in this package had been selected by PRD & 08 other roads had been selected as requested by political authority. However, a sum of Rs.33.1 million had been spent for maintaining those selected roads during last 5 year period from 2015 to 2020.	Maintenance Expenditure from 2015 to 2020 has been sent to the Audit in the Letter of the Provincial Director No.0533/1/3/17/22 and Dated on 29 th March 2022.	Acceptable method should be used to select roads to develop.