

## **Transport Connectivity and Asset Management Project - 2022**

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The audit of financial statements of the Transport Connectivity And Asset Management Project for the year ended 31 December 2022 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 the 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 Development 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(IDA). 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 6 May 2020.

The Project had commenced its activities on 30 June 2016 and restructured on 15 August 2018 and scheduled to be completed by 30 June 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 2022 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 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 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. Physical Performance

### 2.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2022 Expected physical performance percentage	Performance achieved percentage	Audit Issue	Reasons for delays
The overall Project Activities	100	77	Adversely affect to the Project Performance	Recruitment Delay in survey works Extension of proposal submission date
<b>Response of the Management</b>	Agreed. The present progress of the project is 84% and can be achieved 100% progress by the end of project			
<b>Auditor's Recommendations</b>	Action need to be taken to expedite the road rehabilitation works as per the work plan.			

### 2.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The KPI's had not been established to measure the output and outcome of the project operation. Therefore, achievements from the project could not be verified in Audit.	Key Performance Indicators (KPI) has been established to monitor and to assess the achievements of the project.	Action should be taken to implement- "SMART" KPI's
(b)	According to the Credit Agreement 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	Due to the government requirement, the Cabinet Decision 18/1682/805/051, dated 15 <sup>th</sup> August 2018, was approved and the project was restructured accordingly. Hence, the	Action should be taken to identify the project scope at the initial stage to achieve desired objectives.

section from Ja-Ela to end of Chilaw town on Peliyagoda – Puttalam Road approximately 58 Km. The activities of the Project are implemented under 2 components namely institutional Strengthening and Capacity Building for assets Management and the estimated total cost of the Project was SDR 90.5 million equivalent to US\$ 125 million or Rs.18,125 million. 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 that amount had been allocated to the Ministry of Provincial Council, Local Government and Sports for improvements of the all Provincial roads. The Project commenced its activities on 30 June 2016 and restructured on 15 August 2018 and scheduled to be completed by 30 June 2026. The loan amount had been reduced to US\$ 16 million on 15 August 2018 and it had been again revised to USD 9 million equal to Rs.1,305 million on 06 may 2020 due to restructuring of the scope of the Project. Therefore, the objective of the Project had been changed as improvement of provincial roads under Ministry of Provincial Council and Local Government and the initial objective of the Project which was the improvement of national roads had not been achieved. This was a problematic issue in audit.

- (c) However, out of revised credit facilities of US\$ 9 million, the Project had utilized only US\$ 2.3 million representing 26 per cent as at 31 December 2022 after laps of 5 years and 3 Months. Restructuring of Project Scope in 3 times and delay in recruiting staff are mainly affected to that delay. The loan balance amounting to US\$ 6.7 million had remained as at 31 December 2022. Further it was observed that the possibility of utilization of total loan facility before loan expiration on 31 September 2023 could not be verified in Audit.
- Agreed. The Corrective action should be taken to expedite the remaining works before the loan closing on 30<sup>th</sup> September 2023.

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| (d) | Continuous data collection and updating of 10 modules through the asset management system should be completed at the end of 31 March 2023. However only 4 modules had been completed up to 31 March 2023. It was observed that low progress of data collection lead to overrun the Project cost.  | Agreed.<br>It is expected that during the remaining period, progress will be achieved.                    | Corrective action should be taken to complete the works on time                         |
| (e) | According to the Procurement Plan for the year under review, 10 procurement activities valued at Rs.544 million had been planned; only 8 procurement activities valued at Rs.479 million had only been completed during the year under review.  | Agreed.<br>The activities amounting Rs. 65 million were deleted from the scope of the TCAMP.              | Action should be taken to expedite the procurement activities.                          |
| (f) | Four Consultant had been paid Rs.118 million for the year under review and the consultancy works scheduled to be completed before 31 March 2023. However the progress achieved was between 25 per cent to 64 per cent as at end of the year under review due to weakness of contract administration. As such a situation it was observed that balance work of the consultancy works could not be achieved within the loan period. | Agreed.<br>The Consultants were unable to collect data and complete the works as per the agreed schedule. | Corrective action and closely supervision should be taken to complete the works on time |

### 2.3 Idle/ Unutilized/ Underutilized Resources

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) 60 Galaxy Tab A7 book covers had been purchased on 04.05.2022 at a cost of Rs.498,000 and only 05 Tab covers had been distributed to the relevant officials as at 23 March 2023.	Agreed.	Action should be taken to utilized the resources effectively.
(b) Out of GOSL allocation of Rs.17.5 million under capital expenditure vote No 117-2-4-48-2506-0-17, the Project had utilized only Rs.13.5 million and allocation of Rs,4 million representing 23 per cent had not been utilized during the year under review. Further to that, allocation for the foreign loan of Rs.350 million, the Project had utilized only Rs.306 million and Rs.44 million representing 12 per cent of the total allocation had not been utilized by the Project.	Agreed.	Action should be taken to utilize the project funds effectively within the project period.

## 2.4 System and Controls

### Audit Issue

The Project had purchased Arial Truck vehicle valued at Rs.51.5 million for the use of RDA on 25 January 2022. However, the vehicle had been accepted without having spare parts and accessories on 31 March 2022 contrary to the clauses 4.5-4.8 of the purchase agreement. Even though 80 per cent of the total cost amounting to Rs.39.6 million had been paid to the supplier on 31 March 2022, the spare parts and accessories had not been received even up to 30 April 2023. Further, it was observed that, some of the spare parts are required to be available at the first scheduled maintenance during the warranty period, however without receiving spare parts the vehicle could be idled in future. As well as, as per clause 26 of the condition of the contract, if the supplier fails to deliver any or all of the goods by the date of delivery or perform the related services within the period specified in the contract, the purchaser may deduct from contract price as liquidated damages. But the Project had not taken any action to deduct liquidation damages.

### Response of the Management

The vehicle was taken over by RDA. Now the supplier has informed that spare parts of the vehicle have been imported and requested to make necessary arrangements to take over the mechanical division of RDA to make necessary arrangements.

### Auditor's Recommendation

Action should be taken to follow the conditions of contract.