

## **Saudi Funded Road Network Development Project - 2023**

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The audit of financial statements of the Saudi Funded Road Network Development Project for the year ended 31 December 2023 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, the Ministry of Higher Education & Highways, presently the Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency and Road Development Authority is the Implementing Agency of the Project.

The objective of the Project is to rehabilitate and improve 131.5 km of 06 road sections in the Central, Eastern, Sabaragamuwa, Western and North Western provinces. As per the Loan Agreement, the estimated total cost of the Project was US\$ 81.75 million equivalent to Rs.10,628 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by Saudi Fund for Development. The balance amount of Rs.2,828 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020. However, the date of completion of the activities of the Project had been extended up to 31 December 2023.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 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 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 Accounting Deficiencies

No	Accounting Deficiency	Amount Rs.million	Response of the Management	Auditor's Recommendation
(a)	The accumulated interest paid on loan by the External Resource Department as at 31 December 2023 was Rs.584.77 million. However, it had not been accounted. As a result,	584.77	Interest charges related to the Foreign Loan is recorded under separate expenditure vote assigned to the Treasury Operations Department. Budgetary allocations are not provided to the Ministry of Transport and Highways for the payment of loan interest. Therefore	Interest charges should be accounted in the Project financial statements as per State Account Circular No. 230/2013 dated 23 November 2013.

foreign loan balance and working in progress in the financial statements had been understated by similar amount.

it is not recorded as expenditure in the Project Financial Statements.

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| (b) | As per the Section 18 of Sri Lanka Public Sector Accounting Standard – 04, borrowing cost that are directly attributable to the acquisition, construction or production of assets should be capitalized as part of the cost of that assets. However, the borrowing cost relevant to the RDA financing facility had not been capitalized as at 31 December 2023. | 55.65 | This loan was borrowed by the Road Development Authority (RDA), not by the project. Consequently, the borrowing cost is a liability of the RDA. The RDA is being accounted this borrowing cost under Work in Progress. Upon the project's completion and handover to the RDA, they will capitalize the project's cost along with the associated borrowing costs. Therefore, the project has disclosed the borrowing costs in its financial statements. | Borrowing cost should be accounted in the Project financial statements as per State Account Circular No. 230/2013 dated 23 November 2013. |
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### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2023		Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Lots	Lots		
Land Acquisition	Tittle transfer to RDA	1,370	78	According to the information furnished to the audit 1,370 plots of lands were expected to be acquired by the project and compensation of Rs.195.98 million for 1,308 plots of lands and cost of Rs.56.22 million delay interest had been paid as at 31 December 2023.	Delay in land acquisition activities due to poor supervision.
<b>Response of Management</b>	<b>the</b>	The number of land lots registered under section 44 are 72 Nos. belongs to Deraniyagala DS Office related to Dehiowita-Deraniyagala-Noori Road and 06 Lots belongs to Matale DS office related to Kandy-Jaffna Road (15.75 km – 32-54 km) after 31.12.2023. All relevant DSS informed to expedite the section 44 registration.			
<b>Auditor's Recommendation</b>		Maximum effort should be taken to achieve intended targets of the Project within the time frame and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.			

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	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 and a sum of Rs.790,000 had been paid additionally to 03 contractors to reimburse the cost of performance security bonds obtained by the contractors.	Pursuant to Clause 4.2 of the Conditions of Contract (COC), it is clearly stated that the contractor shall obtain a performance security at their own cost. However, PMU was informed not to include this pay item and adjust the COC in future contracts.	The conditions of the contract should be carefully reviewed and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
(b)	According to sub-clause 14.8 of the General Condition of the contract, the contractor is entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay. A sum of Rs.67.78 million had been paid by the Project to the contractors on packages RDA/MFAP/ICB/SFD-2/02 and RDA/MFAP/ICB/SFD-2/03 due to delay in payments to the contractor. Therefore, it was observed that delays in payments to the contractors may directly affect to overrun the the project cost.	It was requested Donor approval for scope change of two contracts and there was an approval delay from the Donor. Accordingly, IPC payments were delayed and the contractor has claimed delay payment charges as per the conditions of Contract.	A formal investigation should be conducted regarding the delay and disciplinary actions should be taken as per Section II of the Establishment Code regarding losses incurred by the government.
(c)	The construction works of the widening of the bridge No. 4/3 on Orugodawatta – Ambatale Road had been commenced on 03 October 2019 and schedule to be completed on 02 January 2021. Although the contract was handed over by the contractor on 26 October 2021, it was observed that action had not been taken to rectify surface damages prevailing on the road area on the bridge.	The existing water lines are not abandoned by the NWS&DB and due to water leak repair works, road surface was damaged. However, action will be taken to repair the same.	An effective work plan should be established with the NWS&DB to minimize the delay and project cost.

### 3.3 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The Project had utilized only SAR 219.11 million equivalent to Rs.8,899.03 million as at 31 December 2023 out of the total allocation of Rs.10,628 million equivalent to SAR 225 million for the project period of nearly ten years commencing from June 2013. Hence, it was observed that SAR 5.89 million equaling Rs.1,728.97 million had remained as unutilized as at 31 December 2023.	It has been decided to reconstruct Bridge No. 4/1 on Orugodawatta – Ambatale Road and bids were invited and published Notice of Award. One bidder has appealed against the award and project commencement was delayed due to the same. Accordingly, it shows unutilized balance on loan.	Maximum effort should be taken to utilize the fund during the project period.
(b)	The allocation made in the budget for the year under review was Rs.349.46 million and out of it, the Project had utilized only Rs.341.15 million during the year under review. Even though the land acquisition activities started in 2012, it was observed that such activities were in progress even as at 31 December 2023.	From the allocation made under GOSL component project had been already utilized Rs. 82.05 Mn. Disbursements from the loan has been accounted based on the Report of Department of State Accounts. Therefore, project had shown Rs. 211.28 Mn in the Financial Statement and balance amount of Rs. 47.83 Mn was unaccounted and shown as foreign aid receivable in Financial Statement. Therefore, the total expenditure made by the Project during the year was Rs. 341.15 Mn.	Maximum effort should be taken to utilize the fund during the project period.

### 3.4 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	It was observed that common expenditures like rent, electricity, salary for the staff, cleaning charges, etc. had not been charged to the project during the year under review. Therefore it was observed that a proper and reliable method had not been followed to segregate the common expenditures among Miscellaneous Foreign Aided Projects in the year under review.	Actions have been taken to distribute overhead expenses among all projects under Miscellaneous Foreign Aided Project Unit, based on the Total Cost Estimate of each project.	Common expenditure should be distribute in a systematically manner among all miscellaneous projects and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

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| (b) | Action had not been taken to complete the outstanding works such as the balance foot walk section, Road sign boards, balance lane marking, drain cleaning, place the balance cover slabs etc. at the date of the Handing over Certificate was issued within the reasonable time to curtail the project cost. | NWS&DB new pipe laying work had been carried out parallel to the Bridge construction works and some of bridge works not completed until completion of pipe laying works. However, all balance works of bridges have been completed now except few surface damages due to water leaks. | An effective work plan should be established with the NWS&DB to minimize the delay and project cost.  |
| (c) | It was observed that the Project had not maintained a proper database regarding the land acquisition process and therefore, the extent of land area acquired and compensated by the project couldn't be verified in the audit.   | Action has already been taken to maintain land acquisition details.   | Action should be taken to maintain a proper database regarding the land acquisitions and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018. |