

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Development Project) - for the period of 01 January to 15 July 2024

The audit of the financial statements of the Transport Connectivity and Asset Management Project-Component 02 (Provincial Road Development Project) for the period of 01 January to 15 July 2024 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 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 the Ministry of Public Administration, Provincial Councils and Local Governments is the Executing agency and Provincial Road Authorities in all provinces are the implementing agencies of the project. 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\$ 63 million equivalent to Rs. 17,595 million. The component 02 commenced its activities on 02 May 2019 and scheduled to be completed by 30 September 2023. The project period was extended up to 31 March 2024.

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 15 July 2024, statement of expenditure and its cash flows for the period 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 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 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

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditors recommendation
Procurement Guidelines (2006) Paragraph 8.13.4	(i) When contingency provision is exceeded, contract variation orders should be submitted for approval according to level of authority. However, a sum of Rs.229,062,042 had been paid by 30 September 2022 exceeding the contingency provision of packages.	The interest payment due to the delay the order this method has been followed.	Action should be taken comply with the Procurement Guideline.
	(ii)Due to quantity and price variations in the contracts of the project, the variation orders were issued as 13.7%, 14.8% and 15.5% of the contract value in relation to the 03 contract packages namely NWP 02, NWP 03 and WP 01, exceeding the contingency provision value of 10%. As per said paragraph Chief Accounting Officer may approve variance orders up to the limit of 15% beyond the contingent provision limit of 10% of the estimated contract value after submitting all documents explaining the variances by the Project Director and if the Chief Accounting Officer is not satisfied with them, on the recommendations of the Technical Committee and the Procurement Committee,	However, as per the Conditions of contract the contract cannot be stopped until Procurement Guideline approval is obtained. The consultancy team has followed according to condition of contract.	Project should follow the said requirement in the Procurement Guideline .

Chief Accounting Officer may approve the variation orders. However contrary to that, after the issuance of the variation orders, the recommendations of the Procurement Committee and the approval of the Chief Counting Officer had been given

<p>(iii) 121 work items estimated at Rs.43,236,241 related to 03 contract packages remained uncompleted, for 108 estimated work items, the value of work performed was less than the estimated amount by Rs.129,958,304, for 117 work items of 04 packages that exceeded the estimated amounts by Rs.218,403,187 and Rs.53,425,324 for Embankment construction work item which was not previously estimated in 03 packages. Accordingly the amount of total physical variances in terms of work done than the estimated work and for works which were not estimated exceeded 5% of the contract value.</p>	<p>The procurement entities also provide rough estimate without designs. As a result, these variations were come across in most of the project. Therefore at least one year period is needed for preparedness activities of the projects to avoid these massive variations.</p>	<p>Action should be taken to prepare the BOQ correctly manner.</p>
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3. Financial and Physical Performance

3.1 Financial progress of the activities of the Project

Activity	Audit issue	Response of the Management	Auditor's Recommendations
Constructions of 99 roads implemented in the 9 provinces under 26 packages	According to the Project completion report, the works of this project commenced in year 2019 for Rs.8,047 million	Due to the financial crisis in years 2020/2022, a large amount of money had to	Action should be taken to complete constructions within the agreed

and at the completion of works be paid for price period to minimize in year 2024, up to a sum of fluctuation. additional cost. Rs.13,592 million had been spent. Price fluctuations, variations, day works had resulted in an increase of 69 per cent in the cost.

3.2 Physical Performance of the activities of the Project

Activity	Delay/Audit issue	Response of the Management	Auditor's Recommendations
Constructions of 99 roads implemented in the 9 provinces under 26 packages	According to the Project completion report, the works of this project commenced in year 2019, were due to be completed in year 2022. However, the delays had extended on various reasons from 5 months to 22.5 months more than the period in which 26 packages were planned.	The period had to be extended due to the Covid pandemic, shortage of goods and the financial crisis occurred in years 2020/2022.	Action should be taken to complete constructions within the scheduled time period.

3.3 Observation made on site visits

Audit Issue	Management Response	Auditor's Recommendations
(a) In selecting roads for development under this project, instances where the criteria considered were not complied with		
(i) Three roads under the Executive Engineer's Office in Kurunegala, had been improved by incurring an expenditure of Rs. 293,506,409. It was observed that it was not complied with the requirement of using the said roads for public transport and that these roads are used as alternative roads.	By fulfilling the selecting criterias completely or partially, roads suitable for development have been selected.	Action should be taken to achieve the desired objectives of the project

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| (ii) The Yangalmodara – Morawalapitiya road improved under the Executive Engineer’s Office, Polgahawela was not connected to a main city and this road was complied with criteria such as a remedy for congestion on roads, establishment of new bus halts and repairing of existing buses. | This road has fulfilled several criteria required for development due to connection of this road to the Kurunegala- Colombo main road | Action should be taken to achieve the desired objectives of the project |
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(b) Deficiencies in Construction

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| (i) It was observed that transportation has become inconvenient as using the road had become difficult due to failure in carrying out repairs of the 02 bridges located on the Mallowapitiya – Katupitiya road in length of 3.4 km under the Executive Engineer’s Office, Kurunegala. | Steps have been taken to make necessary notifications for minimizing this risk as a temporary safety measure. | Action should be taken to Complete the project enable convenient to users. |
| (ii) Washing away of road shoulders were observed in several places on the two roads of Mallowapitiya-Katupitiya and Yangalmodara-Morawalapitiya and in several places on the Mahawa-Nagollagama road and it was observed that there was a risk of those places being damaged due to further remaining of this situation. | The commencement of the maintenance programme of this year was delayed due to the elections in the country thereby delaying the approval of the Finance Commission. | Action should be taken to Complete the project enable convenient to users |

3.4 Matters in Contentious Nature

Audit Issue	Management Response	Auditor’s Recommendations
(a) In analyzing expenses for NWP – 01 package, agreements had been entered into with the contractor for construction of the 04 roads on 19 December 2019 and divergent rates had been used for certain expenditure units. Accordingly, it was observed that a sum of Rs. 2,827,665 had been overestimated.	It is not an oversight or an act done purposely but a change in the normal process.	Work should be completed according to BOQ rates.

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| (b) | <p>In analyzing expenses for NWP – 03 project, the construction company which entered into agreements in December 2019 for construction of 02 roads, had used divergent rates for expenditure units. As such, it was observed that a sum of Rs. 9,621,324 had been overestimated.</p> | <p>It is not an oversight or an act done purposely but a change in the normal process.</p> | <p>Work should be completed according to BOQ rates.</p> |
| (c) | <p>It was observed that payment was made in excess of the prices bided in relation to item 5.1.3 (Dense Graded (37.5mm) aggregate base including light scarification) of BOQ of NWP 03 package. According to paragraph 1.3 of the Preamble to Bill of Quantities section of the contract agreement, the price of a unit submitted for each item in the BOQ should also include the transportation cost, however Rs.10,660,728 was paid to the contractor as transportation cost and it was used for price variation. Accordingly, for 02 roads, the actual quantity of inputs had increased to double and five times the cubic meters mentioned in the BOQ.</p> | <p>The project has acted completely with conditions of contract and satisfaction</p> | <p>Work should be completed according to BOQ rates.</p> |