

Audited Project Financial Statements

Project Number: 47273
Loan Numbers: 3171/ 3221/ 3222/ 3325/ 3326
Period covered: 1 January 2016 to 31 December 2016

SRI: Integrated Road Investment Project

Prepared by i Road Project Management Unit of Road Development Authority under Ministry of Higher Education and Highways, Sri Lanka

For the Asian Development Bank
Date received by ADB: 1 July 2017

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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

RCT/A/IRIP/FA/2016/01

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

30 June 2017

The Secretary

Ministry of Higher Education and Highways

Report of the Auditor General on the Financial Statements of the Integrated Road Investment Programme (i - Road) for the year ended 31 December 2016

The audit of financial statements of the Integrated Road Investment Programme (i Road) for the year ended 31 December 2016 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 4.03 of Article IV of the Loan Agreement No. 3171-SRI (SF) of 05 November 2014 for tranche – 1, Loan Agreements No.3221 and No.3222 of 28 May 2015 for tranche- 2 and Loan Agreements No.3225 and No. 3226 of 11 December 2015 for tranche – 03 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Programme, the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementation Agency of the Project. The objective of the Program is to enhance the road accessibility between rural communities and socioeconomic centers. The long term impact will be increased transport efficiency of national and provincial roads. As per the Loan Agreements, the estimated total cost of Programme amounted to US\$ 906 million equivalents to Rs. 117,780 million and out of that US\$ 800 million equivalents to Rs. 104,000 million agreed to be provided by the Asian Development Bank under 06 Multi Tranche Financing Facility. Out of that, 03 separate Loan Agreements had been signed up to 31 December 2016 to finance US\$ 407 million equivalent to Rs.52,910 million under first 03 tranches and other Loan Agreements are expected to be signed in 2017 to finance US\$ 393 million equivalent to Rs. 51,090 million under other 03 tranches. The Programme commenced its activities on 01 June 2014 and scheduled to be completed by 30 March 2024.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether the expenditure shown in the financial statements of the Program had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.

- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Program from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identifications of the purchases made out of the Loans, etc.
- (d) Whether the opening balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Program and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Programme.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraphs 2.2 of this report, I am of opinion that,

- (a) the Program had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening balance, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Program and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Loan Agreements,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) As a practice, the cost of the non-current assets such as vehicles and lab equipments etc procured by the Project through the contractors engaged in road rehabilitation works had not been recognized separately and shown under the work-in-progress on civil works without being considered the limited life times of such assets.
- (b) The Project had procured 18 desktop computers at a cost of Rs. 2.68 million during the year review and shown under office equipment in the financial statements instead of being shown under computer equipment.

3. Financial and Physical performance

3.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision for the year under review and the utilization of funds during the year under review up to 31 December 2016 are shown below.

Sources	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Fund utilized			
				during the year under review		as at December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	800	104,000	17,544.00	120.70	17,466.35	169.63	23,886.85
GOSL	106	13,780	300.00	-	150.50	-	257.20
Total	906	117,780	17,844.00	120.70	17,616.85	169.63	24,144.05

3.2 Physical progress

According to the initial Action Plan of the Programme, it was expected to commence the rehabilitation works of 742 provincial and rural roads of 3,135.5 kilometres in Southern, Sabaragamuwa, Central, North Central, North Western Provinces and Kalutara District in the Western Province. According to the progress reports of the Project, the rehabilitation works under 15 packages, out of 42 packages awarded had remained behind the targets as at 31 December 2016. The rehabilitation works under 02 packages implemented in the Kalutara District had not shown satisfactory progress, due to legal cases arisen at the time of awarding of contracts. An Implementation Plan should be prepared by the Project based on Initial Action Plan with clearly identified the responsibilities of core staff and physical and financial targets. It was observed that a proper Implementation Plan had not been prepared for this Project and as a result, the progress of the Project as a whole could not be monitored and evaluated in order to take corrective measures and necessary changes if any, with the view of achieving objectives of the Project efficiently and effectively.

3.3 Contact Administration

The following observations are made.

- (a) As per the Project Implementation Consultancy Package Agreements, the Consultants should submit the progress report for each month by indicating the physical and financial progress. However, as a practice, the Consultants had reported financial progress under each contract packages of the Project and determined the physical progress of the road rehabilitation works under the contract packages. Therefore, the physical progress of the rehabilitation works of each provincial road under the packages could not be determined in audit.
- (b) As per the Sub Clause 20 of the Consultancy Agreement of the Project, it was planned to deploy Engineers and Technical Officers of the Road Development Authority, and the Provincial Councils of the Sabaragamuwa, Central and Western Provinces for knowledge transfer purposes. However, the Project had deployed the Technical Officers of the contractors engaged for road rehabilitation works instead of deploying the officers from respective Agencies.

(c) The site visits had been made by the auditor in March 2017 on rehabilitation works implemented in Ratnapura District and following observations are made thereon.

- (i) The rehabilitation works of 12.6 kilometres, out of 92 kilometres of 14 provincial and rural roads in Ratnapura District under the contract Package -02 had only been completed and shown the physical progress remained 11 months behind the targets, due to failures of the contractor in deploying adequate human and physical resources.
- (ii) The arrangements had been made by the Project to procure new Lab equipment through the contractor engaged for the rehabilitation of provincial and rural road in Ratnapura District under the Package - 02 and a sum of Rs 4.72 million had been paid as an advance thereon. However, according to the Consultant's report, used equipment had been supplied by the contractor. Therefore, the basis of calculation of advance payments without the concurrence of the Line Ministry was not explained to audit.

3.4 **Matters in Contentious Nature**

The following observations are made.

- (a) Mobilization advances aggregating Rs. 2,944.85 million had been paid during the year under review to the contractors engaged for road rehabilitation works in the Southern, Sabaragamuwa and Central Provinces. It was observed that a sum of Rs. 508.15 million had been over paid due to calculation of advances on the value of contract which included allocation for provisional sum and contingencies contrary to the paragraph 5.4.4(1) of the Government Procurement Guidelines and other typographical errors. Action had not been taken to recover this overpayment by the Project even up to 31 March 2017.

- (b) A sum of Rs.19.11 million had been paid to the employees of the Road Development Authority during the year under review, as an incentive payment for survey and preliminary engineering activities and preparation of Bill of Quantities

3.5 Issues on Financial Control

The following observations are made.

- (a) According to the information received from the External Resource Department, commitment charges amounting to US\$ 240,815 equivalent to Rs. 34.88 million had been charged as at 31 December 2016 on undisbursed balances of Loans.
- (b) In addition to the financing arrangements made, the Project had obtained a special loan of Rs.136 million from the Road Development Authority without having the concurrence of the General Treasury. Further, the necessity of an additional loan and arrangements made to loan repayments had not been explained for audit.
- (c) It was observed that the Register of Fixed Assets had not been maintained by the Project in updated manner according to the Circular No. 842 of 1978 December 19 General Treasury. A web bases GIS software procured by the Project during the year under review at a cost of Rs. 13.31 million had not been recorded in the Register of Computer and Accessories required to be maintained as per Circular No: IAI/2002/02 of 28 November 2002 of the Ministry of Finance.

3.6 Human Resources Management

The following observations are made.

- (a) It was observed that 11 Consultants and 03 Public Liaison Officers had been recruited by the Project without following formal recruitment procedures and being obtained the approval of the Department of Management Services. The monthly allowance and vehicle hiring charges aggregating Rs.4.50 million had been paid them during the year under review. Further, details relating to the duties



- assigned, attendance records, work done records etc. of those officers had not been made available to audit. In addition, 05 Engineers had also been recruited on apprentice basis of payment of monthly allowance of Rs 60,000 each contrary to Circular No 1/2016 of 24 March 2016 of the Department of Management Services.
- (b) It was observed that as Pay As You Earn Tax aggregating Rs. 6.27 million had been reimbursed, out of the proceeds of contribution of the Government of Sri Lanka by 02 Consultants during the year under review, contrary to the provisions made in the Inland Revenue Act, No. 10 of 2006 and Public Enterprise Circular No: PED/12 of 02 June 2003. Further, a provision of the Agreement entered into with a Document Specialist for the payment of Rs. 12,500 per day, subject to a maximum of 22 days per month which included reimbursement of Pay As You Earn Tax, contrary to the above mentioned requirements.

H.M. Gamini Wijesinghe
Auditor General