

Audited Project Financial Statements

Project Number: 47273
Loan Numbers: 3171/ 3222/ 3326
Period covered: 1 January 2015 to 31 December 2015

SRI: Integrated Road Investment Program

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: 16 August 2016

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MINISTRY OF HIGHER EDUCATION & HIGHWAYS



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வீதி அபிவிருத்தி அதிகாரசபை
ROAD DEVELOPMENT AUTHORITY

INTEGRATED ROAD INVESTMENT PROGRAM

12th Floor, Sethsiripaya Stage II,
Battaramulla, Sri Lanka

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எனது இல. } RDA/ADB/i Road/AUDIT/GEN
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Your No. }

දිනය } 12.08.2016
திகதி }
Date }

Country Director
Sri Lanka Resident Mission,
Asian Development Bank,
No.23, Independent Avenue,
Colombo 7

Subject : Audit Report Year -2015

Following copies of Audit Reports submitted herewith for your perusal please.

1. Audit Report on 03/06/2016
2. Reply report on 22/06/2016
3. Financial Audit Report -2015 on 27/07/2016


Project Director
i Road Project
Road Development Authority

Date Recd: 16/08/16		ACT	INFO
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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

RCT/A/IRIP/04/15/3

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

27 July 2016

The Secretary

Ministry of Higher Education and Highways

Report of the Auditor General on the Financial Statements of the Integrated Road Investment Program (i Road) for the year ended 31 December 2015

The audit of financial statements of the Integrated Road Investment Program (i Road) for the year ended 31 December 2015 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) dated 05 November 2014, 3222-SRI dated 28 May 2015 and 3226-SRI (SF) dated 11 December 2015 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 Program

According to the Loan Agreements of the Program, the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Program. The objectives of the Program are enhance the road accessibility between rural communities and socio economic centers. The long term impact will be improved connectivity and the outcome will be increased transport efficiency of national and provincial roads. The investment program includes to rehabilitate 3,130 kilometres of provincial and rural roads under the purview of Provincial Councils and Local Government Authorities and about 400 kilometres of national roads in the Southern, Sabaragamuwa, Central, North Central, North Western Provinces and Kalutara District of the Western Province. As per the Loan Agreements, the estimated total cost of the Program amounted to US\$ 906 million equivalent to Rs.117,780 million and out of that US\$ 800 million equivalent to Rs.104,000 million agreed to be provided by the Asian Development Bank under 06 Multi-Tranche Financing Facility. Out of that, 05 separate Loan Agreements had been signed upto 31



December 2015 to finance US\$ 407 million equivalent to Rs.52,910 million under first 03 tranches and other Loan Agreements are expected to sign in 2016 and 2017 to finance US\$ 393 million equivalent to Rs.51,090 million under other 03 tranches. The Program 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 is 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 Program'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 Program'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 Program management and the reliability of books, records, etc. relating to the operations of the Program.
- (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 Program.
- (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 Program, the identifications of the purchases made out of the Loans, etc.
- (d) Whether the initial advance, 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 2015 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 Loan 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 Program.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program.
- (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 2015 and the financial statements give a true and fair view of the state of affairs of the Program as at 31 December 2015 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 initial advance, 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 2015 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 applications for reimbursement in accordance with the 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 Deficiency

It was observed that a sum of Rs.273.50 million payable as at 31 December 2015 to the contractors engaged in contracts on civil works and the retention money amounting to Rs.29.45 million made thereon had not been brought to the accounts.

2.2.2 Non-Compliance with Laws, Rules and Regulations

The following instances of non- compliances are observed in audit.

- (a) The Pay As You Earn Taxes amounting Rs.916,645 had not been recovered from the remunerations of 03 Consultants employed by the Program and remitted to the Commissioner General of Inland Revenue, as required by the provisions made in the Inland Revenue Act, No.10 of 2006.
- (b) The overhead cost amounting to Rs.204,915 had been recovered by the Road Development Authority, out of the contribution received from the Government of Sri Lanka, contrary to the Section 8.39 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises.
- (c) It was observed that 11 Consultants and 03 public Liaison officers had been recruited by the Program without obtaining the approval of Department of Management Service, contrary to provisions made in the Circular No.33 of 05 April 2007 of the Department of Management Service.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for		Allocation made in	<u>Funds utilized</u>			
	financing in the			during the year		up to	
	Loan Agreements		the Budget Estimate	2015		31 December 2015	
			for the year under				
			review				
	US\$	Rs.	Rs.	US\$	Rs.	US\$	Rs.
	million	million	million	million	million	million	million
ADB	800	104,000	11,000	48.93	6,421	48.93	6,421
GOSL	106	13,780	108	-	83	-	107
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	<u>906</u>	<u>117,780</u>	<u>11,108</u>	<u>48.93</u>	<u>6,504</u>	<u>48.93</u>	<u>6,528</u>

According to the above information, a sum of Rs 6,504 million had only been utilized, out of the allocation amounting to Rs 11,108 million had been made in the Budget Estimate of the year under review. Thus, it indicated that the annual financial targets could not be achieved as planned.

3.2 Physical Progress

According to the Action Plan of the Program, it was expected to commence the rehabilitation works of 429 provincial and rural roads of 1,649 kilometres in Southern, Sabaragamuwa, and Central Provinces during the year under review and out of that, contracts had been awarded only to rehabilitate 184 provincial and rural roads of 582 kilometers in the Southern Province as at 31 December 2015. Further, it was observed that the rehabilitation works of provincial and rural roads in the North Western, North Central and Western Provinces was not commenced as at 31 December 2015, as the Asian Development Bank had instructed to recall the Expression of Interests thereon.

3.3 Contract Administration

The Program had taken action during the year under review to award 06 contracts under 12 contract packages for the rehabilitation works of rural roads of 582 kilometres in the Southern Province at a total estimated cost of Rs.13,858 million. The following observations are made.

- (a) The rehabilitation and maintenance works of 4.2 kilometres of Nidigamvila-Vijithapura Road in Hambantota district included in the Contract Package No.01 of the Hambantota district had been withdrawn, after awarding the contract thereon. However, savings made thereon had not been determined and adjusted in the contract agreement.
- (b) The Program had selected Gonadeihenakanda Road via Rajapaksha Mawatha to rehabilitate by overlaying of asphalt to 200 metres under the Contact Package No.02 of the Hambantota district without conducting the proper feasibility study and transferring of the ownership of the land to the respective Divisional Secretary. As a result, the rehabilitation works of the road had not been commenced even as at 31 December 2015 due to a land dispute.
- (c) Further, the Program had not identified the scope of the works of rehabilitation works of provincial and rural roads in Hambantota district by conducting proper studies thereon, before awarding the contract. As a result, the rehabilitation works of the section from 0+000 kilometres to 2+020 kilometres of Perahera Mawatha had been included in both Contact Package No.02 and Contract Package No. 03 of the Hambantota district.
- (d) It was observed that the length of the rehabilitation works of the roads in Hambantota district had been reduced by 11.34 kilometres subsequently, as a result of rehabilitation works of several sections of such roads had been completed by the Road Development Authority under its routing programmes. Thus evidenced that the road rehabilitation plans had not been prepared after carrying out of proper surveys and provided undue financial gains for the contractor on additional mobilization advances thereon. Details are given below.

<u>Road</u>	<u>Length of the Roads</u>		
	Under original plans	Under revised plan	Rehabilitated under the routing programmes
	-----	-----	-----
	Kilometres	Kilometres	kilometres
Morawaka - Millawa Road	2.90	2.31	0.59
Morawaka - Paragala-Diyadawa Road	11.20	6.90	4.30
Beralapanathara - Thalapakanda Road	6.00	4.20	1.80
Manchgawa- Layma Junction Road	9.50	6.85	2.65
Pattiyapola - Marakolliya Road	5.70	3.70	2.00
	-----	-----	-----
	<u>35.30</u>	<u>23.96</u>	<u>11.34</u>

- (e) Further, it was observed that length of the following roads expected to be rehabilitated and shown in the Bill of Quantities were not agreed with the actual length of the respective roads measured at the physical site visits made by the auditors. It was further observed that the length of the respective roads indicated in the road inventories maintained by the provincial offices was not correct. Details are given below.

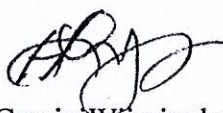
<u>Road</u>	<u>Roads Length</u>	
	As per Bill of Quantities and the Road inventory	As per actual measurements
	-----	-----
	Kilometres	Kilometres
Morawaka - Millawa Road	2.9	2.40
Pattiyapola - Marakolliya Road	5.7	3.05
Ogaspe Junction - Maligathenna - Aththuduwa Road	1.2	0.72

- (f) It was observed that the road rehabilitation works under 03 Contract Packages in Matara district had been commenced on 18 May 2015 whilst the Consultants of the Program had mobilized only on 31 July 2015. As a result, the concurrence of the Consultant had not been obtained for designing of road rehabilitation works.
- (g) According to the accepted practices, the width of the rural roads under the purview of Pradeshiya Sabhas consists with 03 metres whilst the width of provincial roads under the purview of Provincial Councils consists with 04 metres. However, it was observed that the Project had awarded all contract packages to rehabilitate the roads in Matara district with the width of 03 metres, without taking action to segregate rural roads and provincial roads. Therefore, the opportunities are allowed to the contractors to make variation claims for extra works on road width of the provincial roads.
- (h) Several quality failures had been observed at the time of field inspections made by the auditors on road rehabilitation works carried out in Southern Province as described below.
- (i) According to the quality test reports on Asphalt layering from Poramba School to Diyalape Junction via Higgoda Road under the Contract Package No.2 of Matara district, the degree of compaction of the road chainage from 0+000 kilometres to 0+220 kilometres remained at the range from 94 per cent to 95 per cent was not reached to the level of standard of 98 per cent.
- (ii) As per Clause 506 of the Volume 3 of Standard Specification, minimum compacted thickness of asphalt wearing course should be 50 mm. However, the thickness of the Asphalt Wearing Course at the chainage from 5+282 kilometres to 5+675 kilometres of the Morawaka- Paragala- Diyadawa Road and the chainage from 0+670 kilometres to 0+713 kilometres of Ibbawala- Pachaliya- Andurugoda Road had remained at the range of 28mm to 54.4 mm.
- No evidences had been made available to audit on remedial action taken by the contractor on the above mentioned quality failures.

3.4 Extraneous Activities

The following observations are made.

- (a) It was observed that a sum of US\$ 12,359 equivalent to Rs.1.6 million had been charged as the commitment charge on undisbursed loan balance as at 31 December 2015. The Secretary of the Line Ministry had stated that it was not in view of the delay in disbursement and the Lending Agency had recovered the commitment charge as per the Section 2.03 of the Loan Agreement. Further, he added that charges recovered from the undisbursed loan balance of the Borrower, in addition to interest and other charges on the Loan, as per the Section No 2.04 of the Loan Agreement.
- (b) It was observed that the mobilization advance had been calculated with the allocation made on contingencies and provisional sum in the Bill of Quantities, contrary to the Section 5.4.4(i) of the National Procurement Guideline and the Sub Clause 14.2 of the particular Condition of the Contract and as a result, the undue financial gains amounting to Rs.974 million had been received by the contractors.



H.M. Gamini Wijesinghe
Auditor General