

Northern Road Connectivity Project -2020

The audit of financial statements of the Northern Road Connectivity Project for the year ended 31 December 2020 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 the Section 4.05 of Article IV of the Loan Agreement No.2639-SRI and section 2.09 of Article II of the Loan Agreement No 2639/2640 (SF) SRI dated 27 August 2010 and section 4.04 and 4.05 of Article IV of the Loan Agreement No 2890 (SRI) SF and 2891 (SRI) dated 19 November 2012 entered into between the Democratic Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, then Ministry of Ports and Highways, presently the Ministry of Highways is the Executive Agency and the Road Development Authority is the Implementing Agency of the Project. The Road Development Authority is responsible for the management and coordination of Project activities at the national level. The objective of the Project is to rehabilitate and improve 170 kilometers of national roads in the Northern and North Central Provinces. As per Loan Agreement, the initial estimated total cost of the Project amounted to US\$ 146 million equivalent to Rs. 16,790 million and out of that US\$ 130 million equivalent to Rs. 14,950 million was agreed to be financed by the Asian Development Bank. Further, the Asian Development Bank had agreed to provide US\$ 68 million equivalent to Rs. 8,840 million under the additional financing Loan Agreement No. 2890 SRI (SF) of 12 November 2012, out of which US\$ 34 million equivalent to Rs. 4,420 million had been allocated to Provincial Road Development Authorities of the Northern Province and North Central Provinces. In addition, US\$ 30 million equivalent to Rs. 3,900 million had also been allocated by the Asian Development Bank under the Loan Agreement No.2891 SRI of 12 November 2012 to national roads highways in the Northern and North Central Provinces. The Project commenced its activities under the initial Loan Agreement on 22 October 2010 and had been completed by 31 December 2016. The activities of the Project under additional financing arrangements were commenced on 13 May 2013 and scheduled to be completed by 31 December 2018 then extended up to 31 December 2020.

1.3 Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position Project as at 31 December 2020 and its cash flows for the year then ended in accordance with the 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 Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 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 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.

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 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 Deficiencies	Management Responses	Auditor's Recommendations
(a)	Although the assets valued at Rs.535.68 million transferred to the Road Development Authority during the Project period, the relevant schedules of the assets had not been submitted along with the financial statements. Further, audit evidence relating to details of assets with values and information relating to take over of the above assets by the Road Development Authority had not been made available for audit.	Schedules and handing over documents for Rs: 67,007,655.63 worth of Buildings and Rs: 93,800,000.00 worth of vehicles handed over to RDA during the year 2020 and the Rs: 372,000,288.83 worth of assets relating to previous financial years which had been handed over to RDA in portion wise in several occasions.	Supporting Documents and other records need to be maintained separately by the Project office.
(b)	The overhead cost amounting to Rs.3.71 million such as electricity, telephone water, office rent and cleaning services charges and Project incremental expenses aggregating to Rs.28.65 million had been charged as cost of this Project without being apportioned among other three projects operating in the same building.	There are 3 projects implemented in the same office established for NRCP. Most of the resources are owned to the NRCP. Although the correct method is allocation general expenses among the projects, we face difficulties when applying that practice.	Overhead cost of the Project should be segregated among the Project to reflect the accurate costs of such Projects separately.
(c)	Ledger balance of Rs.4,833.53 million shown in the Asian Development Bank Loan No. 2890 (SRI) (SF) as at 31 December 2020 had been erroneously brought to the financial statements as Rs.4,831.56 million. Therefore, balance of the loan had been understated in the financial statements by Rs.1.97 million.	The difference of Rs: 1,961,961 and Rs: 8,506,421 have been arisen due to the taking of wrong opening balance as at 01.01.2020 when prepare the Statement of Change in Funds as at 31.12.2020, submitted along with the 2020 Financial Statements.	Accurate loan balance should be brought to the financial statements.

- (d) Ledger balance of Rs.4,134.06 million shown in the Asian Development Bank Loan No 2891 (SRI) had been erroneously brought to the financial statements as Rs.4,142.60 million in the financial statements. Therefore, balance of the loan had been overstated by Rs. 8.54 million in the financial statements.
- The difference of Rs: 1,961,961. and Rs: 8,506,421 have been arisen due to the taking of wrong opening balance as at 01.01.2020 when prepare the Statement of Change in Funds as at 31.12.2020, submitted along with the 2020 Financial Statements
- Accurate loan balance should be brought to the financial statements.
- (e) Eventhough a sum of Rs.67.05 million had been recorded through journal entry no 20-093 as cumulative depreciation on non-current assets transferred to the Road Development Authority, it had been disclosed as Rs.43.56 million in the financial statements. As a result, value of the Non-Current Assets had been overstated by Rs.23.48 million as at 31 December 2020.
- An audit comment is factually correct. Noted to correct when preparing the financial statement for 2021
- Accurate Non-Current Assets value should be brought to the financial statements.

2.2 Non- Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-Compliances	Management Responses	Auditor's Recommendations
(a)	Financial Regulations 134(3) and Management Audit Circular No.5 of 26 July 2010.	The transactions of the Project had not been subjected to audit of Internal Audit Section of the Road Development Authority.	Although the Implementing Agency of this project is the Road Development Authority, the Executing Agency is the Ministry of Highways. The Audit Division of MOH visits frequently and audits the transaction of this project.	The transaction of the Project should be audited by the Internal Audit Section of the Road Development Authority.
(b)	Treasury Circular No 842 of 19 December 1978	Fixed Assets Register had not been maintained by the Project.	Not respondent.	Need to adopt with circular instruction.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

According to the information received, the rehabilitation works of 170 kilometers of sections of 06 national roads in Northern and North Central Province awarded under 10 packages including 03 years performance based maintenance works of 03 rehabilitated national roads had been completed as at 31 December 2015. Further, the contracts for rehabilitation of other 02 national roads awarded in 2015 and completed in the year 2016, by utilizing the savings on rehabilitation of roads under the initial Implementing Plan. In addition, the rehabilitation works of 122 kilometers of other sections of 07 national roads in Northern and North Central Provinces awarded under the additional financing arrangements had been completed as at 31 December 2016. Out of the savings of the Loans, a new contract had been awarded on 28 April 2017 to rehabilitate A 009 Kandy Jaffna road section from Rambewa to Medawachchiya of 9.64 kilometers had been completed as at 31 October 2018. further, Project had obtained the approval from of Cabinet of Ministers and Asian Development bank to rehabilitate Madawachchiya. Horowpathana road (B238) section and awarded two contracts thereon. However, rehabilitation works had been completed in year 2020.

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Reconstruction and upgrading of two sections of the Medawachchiya - Horowpothana road at a cost of Rs. 1,388 million had been awarded to two contractors for completion in December 2019. However, it was completed in the year 2020.	Commenced the works on 30 March 2019 and intended to complete by end of December 2019. Unfortunately, the curfew imposed during April 2019 due to unrest in the country. Also, government restricted the issue of explosive material even for the registered contractors. This situation has affected the construction activities vastly. Further, the construction activities were affected by COVID 19 epidemic from March to May 2020 and the contractors were compelled to close the site temporarily. According to the delay due to acceptable reasons, the contracts were expected to complete in August 2020.	Remaining Project period should be considered before awarding the contracts.
(b)	The rehabilitation and improvement works of Medwachchiya to Mannar road had been	We agree that the only contract package CP 16 at Medawachchiya Mannar road completed within the initial contract	Need to comply with provisions given in the contract agreement.

completed as targeted while other 13 roads had been completed with delays ranging from 63 days to 214 days. However, no any delay charges were recovered from above contractors during the Project period.

period. All the other contract packages were granted extension of time for completion of contract due to acceptable and justifiable causes such as quantity increase, restriction of borrow pit operation for earth supply, additional works due to public request etc. Once the contract period is extended by approved EOT, there is no reason to deduct the LD until the expiry of contract period. Therefore, none of the contract were deducted any delay damages.

- (c) The cost estimate prepared for rehabilitation and improvement of a A 009 Kandy Jaffna road a section from Rambewa to Medawachchiya road had been increased form Rs.24.12 million representing 3.01 per cent than the cost of the contract awarded, due to inadequate attention on preparation of cost estimates. Further, 32 items in the Bill of Quantities had been increased over the estimated Quantities of works remarkably ranging from 59.66 per cent to 1845 per cent and paid a sum of Rs.136.63 million over the cost of contract awarded.
- The estimate is prepared without any detailed investigation of the ground condition. In the civil works, it is unable to exactly predict the underneath behavior of the ground and unforeseen activities and therefore estimate is also prepared with a few conceptual assumptions.
- Action required to be taken to influence the contractor to complete the works and supervise the construction works closely.