

National Highways Sector Project- 2018

The audit of the financial statements of the National Highways Sector Project for the year ended 31 December 2018 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 34 of Schedule 6 of the Loan Agreement No. 2217 SRI dated 14 December 2006 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 of the Project, then Ministry of Higher Education and Highways, presently the Ministry of Highways and Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is improvement of National Highways network efficiency and strengthens road sector institutions through improving road sector institutions and developing pilot performance based maintenance contracts. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 208 million equivalent to Rs.21,655 million and out of that US \$ 150 million equivalent to Rs.15,275 million was agreed to be provided by the Asian Development Bank. A Memorandum of Understanding was signed by Democratic Socialist Republic of Sri Lanka with Asian Development Bank on 15 February 2008 and Loan Agreement had been amended accordingly on 27 May 2008 to change the scope of the Project within the original loan amount. In addition to the above , another Loan Agreement No. 1355P had been signed by the Democratic Socialist Republic of Sri Lanka with OPEC Fund for Economic Development on 04 October 2010 and agreed to be allocated US\$ 8 million equivalent to Rs.880 million by the OFEC Fund for Economic Development. A supplementary Loan Agreement No. 2767 –SRI had also been signed by the Democratic Socialist Republic of Sri Lanka with Asian Development Bank on 04 October 2011 to allocate US\$ 85 million equivalent to Rs.9,350 million. As per the initial Loan Agreement, the activities of the Project had been commenced on 07 April 2006 and scheduled to be completed by 31 December 2012. However, the period of the Project had been extended up to 31 December 2016, due to delays in completion of Highway Secretariat Building. The financing activities of OPEC Fund for Economic Development were closed on 30 June 2015.

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 of the Project as at 31December 2018, financial performance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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:

- (a) 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.
- (b) 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 internal control of the Project.

- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (d) 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

The following observations are made.

	Accounting Deficiencies	Impact	Response of the Management	Auditor's Recommendations
(a)	A sum of Rs. 116.83 million payable to the contractors as at 31 December 2018 had been understated by Rs.14.39 million, due to an accounting error.	Understatements of the liabilities	Only the VAT payable amount is not provided.	Payable balances at the end of the year under review need to be brought to account..
(b)	Although the construction works implemented by the Project had been completed as at 31 December 2016, necessary instructions had not been issued by the Executing Agency to hand over the assets of the Project to the respective Implementing Agencies and prepare the financial statements for the winding up purposes as at 31 December 2018.	Misapplication of accounting policy.	Due to unsettled contractors' payment, winding up account had not been prepared and expect to settle in 2019 and prepare the winding up accounts.	Action should be taken to transfer the assets and liabilities of completion Projects to the Road Development Authority and prepare the winding up account.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the information received, the upgrading and rehabilitation works of 244 kilometres of 05 national roads had been completed by the Project and handed over to the Implementing Agency as at 31 December 2016, out of 279 kilometres of 09 national roads scheduled to be completed as per the Project Implementation Plan. In addition, the construction works of Highway Secretarial Building had been completed at a cost of Rs.2,918 million by the Project and handed over to the Road Development Authority in 2016.

However, action had not been taken to hand over the furniture, fitting and other equipment of the Building even as at 31 December 2018. Further, it is observed that, the Certificate of Compliance for the Building had not been issued as at 30 November 2019.

3.2 Issues on Land Acquisition

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the information made available, compensation amounting to Rs.1,163.14 million had been paid by the Project to acquire 4,343 plots of land and there was no action taken to transfer the ownership of the plots of land and registered under Section 44 of the Land Acquisition Act as at 31 December 2018.	Possible increase of costs on compensation and interest payments thereon.	For issuance of Section 44 under the Land Acquisition Act, compensation including interest payment shall be paid.	Need to take expedite action to transfer the rights of the assets.