

OPEC Funded Road Network Development Project - 2018

The audit of financial statements of the OPEC Funded Road Network Development 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 the Loan Agreement No.1452P dated 08 October 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development. 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, then Ministry of Ports, Shipping and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to constitute as an integral part of Sri Lanka's Development Policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 62.46 million equivalent to Rs.7,121.32 million and out of that US\$ 40 million equivalent to Rs.4,560 million was agreed to be financed by OPEC Fund for International Development and the balance of US\$ 22.46 million equivalent to Rs.2,561.32 was required to be provided by the Government of Sri Lanka. The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended in 02 instances up to 31 December 2019.

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 31 December 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 Program 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:

- 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 Deficiency

Accounting Deficiency	Impact	Comments of the Management	Auditor's Recommendation
It was observed that a sum of Rs. 21 million had been paid as interest on delays in settlement of compensation on lands acquired as at 31 December 2018. Further, the provision for interest on compensation had remained overstated by Rs. 3 million as at 31 December 2018, due to erroneous accounting treatment.	Overstatement of assets and liabilities by Rs.3 million.	Action had been taken to rectify the errors.	Need to strengthen the controls on passing of accounting treatments.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the initial plans of the Project, the rehabilitation and improvement of 202 kilometres of the national roads were expected to be carried out by the Project and the by length of the national roads had been reduced 64 kilometres as per the decision of the Cabinet of Ministers arrived at its meeting held on 03 May 2012. Out of that rehabilitation and improvement of 36.57 kilometres of sections of 04 national roads and improvement of a bridge of Polgahawela- Kegalle Road had only been completed as at 31 December 2018.

3.2 Contract Administration

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
The reconstruction works of the section from 0+420 kilometres to 3+050 kilometres of Peradeniya – Badulla-Chenkalladi Road scheduled to be completed on 24 August 2018 had shown slow progress of 27.37 per cent as at that date. However, the respective contractor had continuously carried out the road reconstruction works even up to 30 April 2019 and shown the physical progress of 38.13 per cent as at that date, without either being obtained the approval of the relevant parties or extended the period of the contract.	Possible increase of costs, due to delays in completion of works.	Not properly commented.	Need to be influenced the contractors to achieve the time targets and avoid the cost increase and extension of the period of the contracts.