

Widening and Improvement of Roads and Bridges in the Central and Uva Provinces Project - 2018

The audit of financial statements of the Widening and Improvement of Roads and Bridges in the Central and Uva Provinces 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 provisions made in the Loan Agreement No. Exim Bank – Hunan - 015 dated 07 June 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Export – Import Bank of China. 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 Ministry of Highways and Road Development and Petroleum Resources Development, 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 widening and improvement of 62.06 kilometres of national roads and 2.25 kilometres provincial roads and reconstruction of 13 of bridges in the Central and Uva Provinces. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 100 million equivalent to Rs. 12,674.90 million and out of that US\$ 85 million equivalent to Rs.10,774.74 million was agreed to be financed by Export – Import Bank of China. The balance amount of Rs.1,900.16 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 29 November 2018 and scheduled to be completed by 28 November 2020.

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.

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. Physical Performance

2.1 Physical progress of the activities of the Project

According to the Memorandum of Understanding entered by the Road Development Authority with the Lending Agency, it was expected to carry out works for widening and improvement of 64.31 kilometres of roads and reconstruction of 13 Bridges in the Central and Uva Provinces at an estimated cost of Rs. 12,616 million. Therefore, the contracts had

been awarded under 02 contract packages and commenced the works in November 2018 and no significant physical progress on such works had been reported as at 31 December 2018.

2.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
It was observed that the allocations made in the Bill of Quantities for provisional sums and contingencies had been taken into consideration for the calculation of mobilization advances and as a result, a sum of Rs. 198.14 million had been overpaid as the advances.	Allowed rooms for unnecessary financial gains for the contractors.	Not properly commented.	Need to take action to identify the responsible parties and avoid occurrence of similar situations in future.