

Widening and Improvement of Roads and Bridges in the Central and Uva Provinces Project - 2020

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 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. 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 the Ministry of Highways and Road Development and Petroleum Resources Development, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are widening & improvement of 64.31 km length of roads. Out of which 62.06 km of RDA roads and 2.25 km length of provincial roads and reconstruction of 13 numbers of bridges. As per the Loan Agreement, the estimated total cost of the Project was 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 the Export – Import Bank of China. The balance amount of Rs.1,900.16 million was 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 Qualified 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 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
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		Rs.		
		million		
(a)	According to the information provided by the Department of External Resources, interests and commitment charges on the loan for the year ended 31 December 2020 was Rs.78 million and Rs.133 million respectively. How-	211	The Department of Treasury operation had taken action to capitalize the loan interests and commitment charges on the loan according to the Circular No:	The interest and commitment charges should be capitalized.

ever, those charges had not been brought to the financial statements.

SA/MA/DO/Circular-2013 dated 29 November 2013.

- (b) The reconciliation for the difference observed between the loan balance as per the statements of the General Treasury and the Project financial statements as at 31 December 2020 had not been provided for audit. 622 This difference of Rs.622 million is due to the unaccounted disbursement by the General Treasury in 2019 since the borrowing limits restrictions. Reconciliation should be submitted to the audit in this regard.

3. Physical Performance

3.1 Progress of the Activities of the Project

The activities of the Project consisted with 02 packages namely Road package and Bridges package. The physical and financial progress of the Road package and Bridge package was 86 percent and 46 percent respectively as at 31 December 2020.

3.2 Contract Administration

No	Audit Issue	Response from the Management	Auditor's Recommendation
(a)	As per the Cabinet Appointed Procurement Committee held on 22 November 2013, the Project Proponent's cost was higher than the Engineer's estimate by Rs.2,072.72 million. However, the project had been implemented without considering the costs difference.	This is an unsolicited project which funded by EXIM bank (Hunan branch). The estimated cost proposal was reviewed by the Technical Evaluation Committee and recommended to the Standing Cabinet Appointed Procurement Committee. After the observation and comments made by the SCAPC, this was referred to the Cabinet of Ministers and obtained the approval for that proposal and estimated cost.	The decision should be taken based on the engineer's estimate.
(b)	As per the recommendation of Department of National Planning as at 09 July 2014, it was stated that Net Present Value - (NPV) were negative of 4 road sections and the IRR were also negative of 2 road sections and bridges. However, without considering the project evaluation results those roads section and the bridges had been implemented.	-As same as the above-	The project evaluation results should be considered for selecting road sections.