

## **Integrated Road Investment Program (i Road) for the first accounting period from 01 November 2014 to 31 December 2014**

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The audit of financial statements of the Integrated Road Investment Program (i Road) for the first accounting period from 01 November 2014 to 31 December 2014 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 4.03 of Article IV of the Loan Agreement No. 3171-Sri(SF) dated 05 November 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Program, the Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Program. The objective of the Program is to enhance road accessibility between rural communities and socioeconomic centers. The long term impact will be improved connectivity and the outcome will be the increased transport efficiency of national and provincial roads. The Investment Program will be implemented under five Project Implementation Units established in Southern Province, Sabaragamuwa Province Western Province, Central Province, North Central Province, North Western Province covering 2,200 kilometres provincial roads and 400 kilometres of national roads. As per the Loan Agreement, the estimated total cost of the Project was US\$ 906 million equivalent to Rs.117,780 million and out of that US\$ 800 million equivalent to Rs.104,000 million was agreed to be provided by the Asian Development Bank. The activities of the Project had been commenced 01 June 2014 and scheduled to be completed by 30 March 2024.

### **1.3 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 Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements 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 the Program's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following;

- a)** Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the Program management and the reliability of books, records, etc. relating to the operations of the Project,
- b)** Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Program from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program in financial and physical terms, the assets and liabilities arising from the operations of the Program, the identification of purchases made out of the Loan etc,
- c)** Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- d)** Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Program,
- e)** Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program,
- f)** Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- g)** Whether financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me I am of opinion that,

- (a) the Program had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Program as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided and
- (c) the financial covenants laid down in the Loan Agreement had been complied with

### **2.2 Comments on Financial Statement**

#### **2.2.2 Non - Compliance with Laws, Rules and Regulations**

The following non- compliances with laws, rules, regulations were observed.

#### **Reference to Laws, Rules, Regulations etc.**

#### **Non- compliance**

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|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(a) National Procurement Guidelines.<br/>Section 3.1 and 3.2</p> <p>Section 1.2 (c)</p> | <p>Competitive bidding procedures had not been adopted to select 11 consultants for preliminary investigations of roads at a estimated cost of aggregating to Rs.119,266,514.</p> <p>Although the procurement procedure should be followed to provide fair, equal and maximum opportunity for eligible interested parties to participate in procurement, the Project had selected the suppliers for hiring of vehicles registered at Road Development Authority.</p> |
| <p>(b) Circular No.33 dated 05 April 2007 of Department of Management Services</p>         | <p>The Program had recruited 22 officers without the approval of the Department of Management Services.</p>                                                                                                                                                                                                                                                                                                                                                          |

### 3. **Financial and Physical Performance**

#### 3.1 **Utilization of Funds**

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and utilization of funds during the year under review and up to 31 December 2014 are shown below.

| <u>Sources</u> | <u>Amount agreed for financing in the Loan Agreement</u> |                    | <u>Budgetary provision for the year 2014</u> | <u>Funds utilized up to 31 December 2014</u> |
|----------------|----------------------------------------------------------|--------------------|----------------------------------------------|----------------------------------------------|
|                | <u>US \$. million</u>                                    | <u>Rs. million</u> | <u>Rs. million</u>                           | <u>Rs. million</u>                           |
| ADB            | 800                                                      | 104,000            | -                                            | -                                            |
| GOSL           | <u>106</u>                                               | <u>13,780</u>      | <u>30.79</u>                                 | <u>29.10</u>                                 |
|                | <u>906</u>                                               | <u>117,780</u>     | <u>30.79</u>                                 | <u>29.10</u>                                 |

According to the financial statement, proceeds amounting to Rs.136 million had been received from Road Development Authority as a temporary loan to commence the activities of the Program since 01 June 2014 in addition to the allocation made by the General Treasury.

#### 3.2 **Physical Progress**

The road improvement activities to be carried out under the Program had not been commenced even as at 31 December 2014 instead consultancy works for road preparatory activities.