

## **Badulla-Chenkaladi Road Improvement Project - 2015**

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The audit of financial statements of the Badulla-Chenkaladi Road Improvement Project for the first accounting period ended 31 December 2015 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. This Project is implemented under the Loan Agreements Nos. 1661P and 10/639 dated 26 June 2015 and 30 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development (OFID) and the Saudi Fund for Development (SFD).

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

According to the Loan Agreements of the Project, the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the connectivity of the Eastern Province with the Central and Uva Provinces to improve the transportation and enhance the economic activities in the regions. The total length of 147 kilometres of the Road had been divided into two components namely from Badulla to Bibile and Bibile to Chenkaladi for the contract implementation purposes. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 140 million equivalent to Rs.18,200 million and out of that US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by the OPEC Fund for International Development and US\$ 60 million equivalent to Rs.7,800 million was agreed to be financed by the Saudi Fund for Development. The Project commenced its activities under the Component A and B in August 2016 and September 2016 and scheduled to be completed by February 2019 and March 2019 respectively.

### **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 risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project'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 Project'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 Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loans, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (h) Whether the financial covenants laid down in the Loan Agreements 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 Project had maintained proper accounting records for the period ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with the Sri Lanka Public Sector Accounting Standards, and
- (b) the funds provided had been utilized for the purposes for which they were provided.

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

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds as at 31 December 2015 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2015
	US\$ million	Rs. million	Rs. million	Rs. million
Lending Agency				
- OFID	60	7,800	-	-
- SFD	60	7,800	-	-
GOSL	20	2,600	424.40	424.40
	<b><u>140</u></b>	<b><u>18,200</u></b>	<b><u>424.40</u></b>	<b><u>424.40</u></b>

### 3.2 Physical Progress

The following observations are made.

- (a) A comprehensive detailed action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc. covering the entire period of the Project had not been prepared to ensure the achievement of Project objectives using allocated resources within schedule time period.
- (b) According to the information made available, the Project had involved with land acquisition activities since 2009. Therefore, 59.28 hectares of lands including 43.42 hectares of Crown Lands in the Divisional Secretariat Divisions of Badulla, Passara, Bibila and Redeemaliyadda had been identified to acquire during the year under review. However, action had not been taken to identify the lands expected to be acquired in the Divisional Secretariat Divisions of Lunugala, Padiyathalawa, Mahaoya and Eravurpattu as at 31 December 2015.

### 3.3 Matters in Contentious Nature

The proceeds of a Loan amounting to Rs. 2.54 million obtained by the Road Development Authority from a local Licensed Specialized Bank had been utilized to initiate the activities of the Project. However, the arrangements made to repay the Loan had not been explained for audit.