

## **Road Project Preparatory Facility - 2015**

---

The audit of financial statements of the Road Project Preparatory Facility for the year 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 read in conjunction with Section 4.06 (b) of Article IV of the Loan Agreement No. 2080 SRI (SF) dated 16 June 2004 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

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

---

According to the Loan Agreement of the Project, then Ministry of Highways and Investment Promotion, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementation Agency of the Project. The objective of the Project is to support the Government of Sri Lanka in developing its road network efficiently. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 20 million equivalent to Rs.1,969 million and out of that US\$ 15 million equivalent to Rs. 1,476.75 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 15 September 2004 and scheduled to be completed by 31 December 2008. Subsequently, the date of completion of the activities of the Project had been extended by 06 times up to 30 June 2015. However, the financial statements of the Project for the year ended 31 December 2015 had been prepared and presented for audit.

### **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 misstatement 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 and the Lending Agency, 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 Loan, etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the 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 Project had maintained proper accounting records for the year 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 Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

### 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 utilization of funds during the year under review and up to 31 December 2015 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the under review	during the year 2015		<u>Funds utilized up to 31 December 2015</u>	
	US\$ million	Rs. million		Rs. million	Rs. million	US\$ million	Rs. million
ADB	15	1,476.75	60.00	59.36	15.49	1,793.52	
GOSL	05	492.25	41.15	40.90	-	426.54	
	<u>20</u>	<u>1,969.00</u>	<u>101.15</u>	<u>100.26</u>	<u>15.49</u>	<u>2,220.06</u>	

It was observed that the allocation of US\$ 144,810, out of the initial allocation of US\$ 15 million of the Loan had been subsequently cancelled by the Lending Agency due to lack of plan to utilize the funds for the activities of the Project. Further, the balance of US\$ 15,191 equivalent to Rs.2,136,446 remained unspent at the Imprest Account had been refunded to the Lending Agency as at 17 September 2015.

### **3.2 Physical Progress**

-----

According to the information received, 2,200 kilometres of national roads and 2,900 kilometres of provincial roads had been selected by the Road Development Authority and Ministry of Provincial Councils and Local Government with the participation of the provincial road agencies to carry out feasibility studies and preparation of detailed designs for rehabilitation purposes. However, a contract had been awarded to provide consultancy services for designing of 3,165 kilometers national roads and 3,119 kilometres of provincial roads at a cost of Rs.1,965 million. Out of that, the feasibility studies and detailed designs for 1,821 kilometres of national roads and 3,143 kilometres of provincial roads had been completed as at 31 December 2015. The feasibility studies and detailed designs of improvement of the sections of the roads from Kirulapona to Orugodawatte, Kirulapana to Kottawa, New Kelani Bridge to Kadawatha and New Kelani Bridge to Galle Face had been completed during the year under review.

### **3.3 Matters in Contentious Nature**

-----

Eventhough the non-current assets valued at Rs.1.47 million had been handed over to the Road Development Authority, Northern Road Connectivity Project and Ministry of Provincial Councils and Local Government at the end of the period of the Project, the genuineness of the handing over process cannot be determined in audit, as the responsible officers who involved in handing over and taking over of the assets had not signed in the respective list of items handed over.

### **3.4 Closure of the activities of the Project**

-----

Eventhough the activities of the Project had been closed as at 31 December 2015, action had not been taken to prepare and present winding up accounts after transferring of the assets and liabilities of the Project to the Implementing Agency.