

Road Network Improvement Priority Road Project-1 - 2016

The audit of financial statements of the Road Network Improvement Priority Road Project-1 for the year ended 31 December 2016 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 Loan Agreement No. 4500402212010110492 dated 16 December 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the China Development Bank Corporation (CDB)

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is to improve mobility of the National Highways Network of the country through the rehabilitation of sections of road selected on a priority basis spread throughout the country thereby facilitating access to vital services and contributing to economic development activities. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 169.80 million equivalent to Rs.18,864 million and out of that US\$ 152.80 million equivalent to Rs.16,976 million was agreed to be provided by the China Development Bank Corporation. The Project commenced its activities on 29 December 2010 and scheduled to be completed by 29 December 2013. However, activities of the Project had been completed as at 15 July 2014. However, the activities of the Project had been carried out upto 31 December 2017.

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 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 withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraphs 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December

2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 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,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) 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 the utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimates for the year under review	Funds utilized			
				during the year 2016		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
CDB	152.80	16,976.00	-	-	-	152.46	18,744.75
GOSL	17.00	1,888.00	5.00	-	2.16	-	2,503.10
Total	<u>169.80</u>	<u>18,864.00</u>	<u>5.00</u>	-	<u>2.16</u>	<u>152.46</u>	<u>21,247.85</u>

3.2 **Physical Progress**

According to the information received, the rehabilitation works of 197.97 kilometres of 07 priority roads in Southern, Sabaragamuwa, Central, Northern and Eastern Provinces and construction works of the flyover at Siribopura Junction in the Southern Province had been completed by the Project as at 31 December 2016 under 06 contract packages.

3.3 Issues relating to Financial Controls

The Project Monitoring Unit had not taken action to carry out verification of the assets such as furniture, office equipment, lab equipment and survey equipment etc, valued at Rs. 96.82 million procured by the Project through the contractors.

3.4 Closure of the Activities of the Project

The following observations are made.

- (a) Eventhough the activities of the Project had been completed as at 31 December 2016, action had not been taken by the Executing Agency to instruct the Project Monitoring Unit to hand over the assets and liabilities of the Project to the Implementation Agency.
- (b) The Project Monitoring Unit had not taken action to prepare financial statements on the basis of winding up of the activities of the Project and as a result, the civil works valued at Rs..21.02 million and advances received from the Road Development Authority had been continuously shown as the assets and liabilities of the Project as at 31 December 2016.