

## **Improvement of Hatton-Nuwaraeliya Road Project - 2017**

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The audit of financial statements of the Improvement of Hatton-Nuwaraeliya Road Project for the year ended 31 December 2017 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. SRI-20 dated 02 November 2010 and Supplementary Loan Agreement No.SRI-26 dated 22 June 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Economic Development Co-Operation Fund.

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

According to the Loan Agreement of the Project, then Ministry of Higher Education and Highways, presently Ministry of Highways and Road Development and Petroleum Resource Development is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are stimulating socio-economic growth and development by improving access to markets and providing employment opportunities and social services of the people living in Nuwara Eliya district. Therefore, it was proposed to improve 35.6 kilometres of Hatton–Nuwara Eliya Road and construct Kotagala Tunnel and Nanuoya under pass Railway Bridge. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 70.40 million equivalent to Rs.9, 061 million and out of that US\$ 57.14 million equivalent to Rs.7,049.37 million was agreed to be provided by the Economic Development Co-Operation Fund. Further, the additional allocation had been provided by the Economic Development Co-Operation Fund under a supplementary loan of US\$ 17 million equivalent to Rs.2,010.2 million to meet price escalations and cost on additional works on construction of Nanuoya under pass and the Kotagala Tunnel. Further, the savings on allocation made under the supplementary loan had been decided to utilize to improve the section from 68.5 kilometre to 72 kilometre of Avissavella - Hatton Road. The Project commenced its activities on 01 December 2011 and scheduled to be completed by 31 December 2015. However, the period of the Project had been extended up to 31 January 2016, due to changes of the scope of the works under the Project. The operations of the Project had been continued to settle the claims made on compensation for plots of land acquired and prepared financial statements for the year ended 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 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 Loan, etc.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

### **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 2017 is shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>	
	US\$ million	Rs. million	Rs. million	during the year under review Rs. million	as at 31 December 2017 Rs. million
EDCF	57.14	7,049.37	-	-	7,240.73
GOSL	13.26	2,011.63	50.66	18.53	221.28
RDA Special Allowance	-	-	-	-	33.84
<b>Total</b>	<b><u>70.40</u></b>	<b><u>9,061.00</u></b>	<b><u>50.66</u></b>	<b><u>18.53</u></b>	<b><u>7,495.85</u></b>

#### **3.2 Physical Performance**

According to the information received, the rehabilitation works of the section of 35.60 kilometres of Hatton – Nuwara Eliya Road and construction works of Nanuoya underpass and Kotagala tunnel had been completed and handed over to the Road Development Authority by 02 March 2015. The estimated cost of Rs. 3,767.69 million had been subsequently increased up to Rs.6,747.17 million, due to changes of the scope of works of the Project. Further, the improvement works of the additional works of the section from 68.50 kilometre to 72 kilometre of Awissawella – Hatton Road had also been completed 31 December 2015.

#### **3.3 Land Acquisition**

The land acquisition activities commenced in 2011 had shown slow progress and the legal rights of 685 plots of land, out of 1,322 plots of land had been transferred as at 31 December 2017. Further, interest amounting to Rs. 2.48 million had been paid as at 31 December 2017 on delays in settlement of compensation.

#### **3.4 Closure of the Activities of the Project**

Even though the activities of the Project had been completed even as at 31 December 2015, the instruction had not been issued by the Executing Agency to hand over the assets and liabilities of the Project to respective Implementing Agencies and wind up the operations of the Project Monitoring Unit even as at 31 December 2017.