

OPEC Funded Western Province Road Development Project - 2017

The audit of financial statements of the OPEC Funded Western Province Road Development 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. 1662P dated 26 June 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Highways and Investment Promotions, presently the Ministry of Roads and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is the upgrading, improvement and widening of 27 kilometres of pre-selected national highways in the Western Province of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be provided by the OPEC Fund for International Development. The Project had commenced its activities on 05 October 2017 and scheduled to be completed by 28 June 2019.

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 the 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, and
- (h) 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 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,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) 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 of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
OFID	17.00	2,209.84	73.00	-	-	-	-
GOSL	7.87	1,022.66	384.00	0.249	32.37	0.335	43.50
Total	<u>24.87</u>	<u>3,232.50</u>	<u>457.00</u>	<u>0.249</u>	<u>32.37</u>	<u>0.335</u>	<u>43.50</u>

According to the above information, the allocation made by the Lending Agency had not been utilized during the year under review, even though the Loan Agreement was signed on 26 June 2015, due to lack of comprehensive overall plan for the Project and annual action plans prepared for the smooth functioning of the activities of the Project.

3.2 Physical Progress

According to the Project documents, the rehabilitation works of 25.81 kilometres of the national roads had been commenced on 29 January 2018 under the Contract Package -01 whilst commencing of works under the Contract Package -02 on 05 October 2017 and no significant physical progress on civil works had been reported as at 31 December 2017.