

## **Northern Road Connectivity Project – Provincial Component - 2017**

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The audit of financial statements of the Northern Road Connectivity Project – Provincial Component 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 Section 4.03 of Article (iv) of Loan Agreement No. 2640 – SRI (SF) dated 27 August 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

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According to the Loan Agreement of the Project, then Ministry of Provincial Councils and Local Government, presently the Ministry of Provincial Councils, Local Government and Sports is the Executing Agency and the Provincial Road Development Department of Northern Provincial Council is the Implementation Agency of the Project. The objective of the Project is to improve road connectivity within the Northern Province and between the Northern Province and the Southern regions of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 27.16 million equivalent to Rs.3,530.8 million and out of that US\$ 24.40 million equivalent to Rs.3,172 million was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 22 October 2010 and scheduled to be completed by 30 June 2015. Eventhough, the date of completion of the activities of the Project had been extended up to 31 December 2016, financial statements for the year ended 31 December 2017 had been prepared and presented for audit.

### **1.3 Responsibility of the Management for the Financial Statements**

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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 in 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**

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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 judgement, 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 the 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, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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 the 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**

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### **2.1 Opinion**

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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 opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for replenishment 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**

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### **3.1 Utilization of Funds**

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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 as at 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	Funds utilized			
	US\$ million	Rs. million		during the year 2017		up to 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	24.40	3,172.00	190.72	1.13	128.58	26.51	2,942.80
GOSL	2.76	358.80	21.59	0.23	21.25	3.15	349.17
	<b><u>27.16</u></b>	<b><u>3,530.80</u></b>	<b><u>212.31</u></b>	<b><u>1.36</u></b>	<b><u>149.83</u></b>	<b><u>29.66</u></b>	<b><u>3,291.97</u></b>

### 3.2 Physical Progress

The Project had taken action to rehabilitate 153.31 kilometres of 25 provincial roads in the Northern Province and awarded contracts under 07 contract packages. According to the information received, the rehabilitation works of 147.65 kilometres had been completed. According to the explanations made by the Project Director, it was decided to drop the rehabilitation works of 5.66 kilometres of Mankulam-Maradamadu- Mingenttigama Road, due to the shortage of material.

### 3.3 Contract Administration

It was observed that the rehabilitation works of 20 roads under 06 contract packages of the Project had been completed with delays of ranging from 08 months to 22 months, due to the lack of access facilities and environmental issues etc. Further, the initial estimated cost of Rs.2,888 million on rehabilitation works had been revised as Rs.2,963 million and a sum of Rs.2,772 million had been incurred thereon at the time of closure of the activities of the Project.

### 3.4 Closure of the Activities of the Project

Eventhough the activities of the Project had been closed as at 31 March 2017, necessary instructions had not been issued by the Executing Agency to the Project Monitoring Unit to prepare the financial statements for winding up purposes.