

Northern Road Connectivity Project - 2018

The audit of financial statements of the Northern Road Connectivity Project for the year ended 31 December 2018 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 4.05 of Article IV of the Loan Agreement No.2639 SRI dated 27 August 2010 and Loan Agreements No.2890-SRI (SF) and 2891-SRI dated 31 May 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, then Ministry of Ports and Highways, presently Ministry of Highways, Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is to rehabilitate and improve 197.80 kilometres of National Roads in the Northern and North Central Provinces. The activities of the Project are implemented under 03 components namely civil works, consultancy and Project management. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 176 million equivalent to Rs 20,690 million and out of that US\$ 160 million equivalent to Rs 18,850 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 22 October 2010 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended up to 31 December 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiency

Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Recommendations
A payable amount to 20 contractors engaged in road maintenance activities carried out under the Project had not been brought to account.	51.20	accrued expenses aggregating Rs.146.23 million shown in the financial statement had been understated by that amount.	Not Commented	Total amount payable at the year end should be taken into consideration to ensure the accuracy of the year ended balance.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non- compliance	Impact	Response of the Management	Recommendations
Financial Regulation 134(3) Management Audit Circular No. 5 of 26 July 2010	Transaction of the Project had not been subjected to internal audit by the Internal Audit Unit of the line Ministry.	Accuracy of the balances shown in the financial statement.	Not commented	Transaction of the Project is required to be reviewed by the Internal Audit in order to ensure the validity of the payments made by the Project.

3. Physical Performance

3.1 Physical Progress

The rehabilitation works of 169.94 kilometres of 06 national roads in the North and North Central Provinces scheduled to be carried out under the initial Implementation Plans of the Project and the rehabilitation works of 117.48 metres of other 07 national roads in the above mentioned Provinces under the additional financing arrangements had been completed as at 31 December 2016. Further, the rehabilitation works of 25.15 kilometres of other 03 national roads had been carried out up to 31 December 2018 using the savings of allocations amounting Rs.1,842.93 million under the initial Loan Agreement. According to the information received, a sum of Rs.907.31 million had remained unspent as at 31 December 2018, out of the allocations made under the additional financing agreement and expected to utilize in 2019 for rehabilitation of other national roads.

3.1 Contract Administration

Audit Issue	Impact	Response of the Management	Recommendations
The scope of the Project had been amended in 03 instance to utilize the savings of the costs estimated for rehabilitation of roads.	Poor application of financial control on estimation of the costs of contract	Not commented	Proper procedures on estimation of cost of each package should be carried out to optimize the use of funds for intended purposes.

3.2 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Recommendations
The performance base maintenance contracts of Dambulla to Thonigala Road of 23.35 Kilometers and Thonigala to Galkulama Road of 24.17 Kilometers had been awarded at the estimated cost of Rs. 20.40 million and 5.30 million respectively. However, the reason for significant difference of the costs of the contracts for equal lengths of the roads had not been explained for audit.	The cost of the contracts implemented by the Project would be unreasonably high due to lack of proper system adopted for n bid evaluation purposes.	Not commented	Clear cut procedure and road maintenance system should be established and bid evaluation should be carried out thereon