

National Highways Sector Project (Additional Financing) - 2018

The audit of the financial statements of the National Highways Sector Project (Additional Financing) 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 2.09 of Article II of the Loan Agreement No. 2767 SRI dated 14 December 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports and Highways presently, the Ministry of Highways, Road Development and Petroleum Resources Development is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the national transport efficiency by upgrading rehabilitation and realignment of 62 kilometres of National Highways. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 105.60 million equivalent to Rs.13,728 million and out of that US\$ 85 million equivalent to Rs.11,050 million was agreed to be provided by the Asian Development Bank. This Project was implemented to provide additional finance for simultaneous Project called National Highways Sector Project which was completed on 11 September 2017. Eventhough these Projects are administered by the same Project Monitoring Unit, the financial statements for the year ended 31 December 2018 for respective Projects are submitted separately. The Project commenced its activities on 14 December 2011 and scheduled to be completed by 31 December 2015 and extended up to 31 December 2017.

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 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 Projects 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 the 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 Presentation of Financial Statements

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
Although the activities of the Project had been closed as at 31 December 2017, necessary instructions had not been issued by the Executing Agency to hand over the assets of the Project to the respective Implementing Agencies and wind up financial statements. The Project continues its operations even up to 31 December 2018 and as a result, the financial statements for the year under review had been prepared on going concern basis without considering the limitations imposed by the Loan Agreement to curtail the operations of the Project.	Accounting polices applied in incorrect manner.	No comments	All assets and liabilities of the Project need to be transferred to the Implementing Agency immediately after completion of the activities of the Project and prepare the wind up financial statement.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the Project Implementation Plan, it was scheduled to upgrade and rehabilitate of 62 kilometres of 02 national roads directly linked to the Southern Expressway from Hikkaduwa and Aluthgama and other 04 national roads of Matara – Godagama Road, Katukurunda – Nagoda Road, Nugegoda - Homagama Road and Pamankada – Kesbawa Road. However, the rehabilitation works of 55.72 kilometres of such roads had been completed even as 31 December 2016. The rehabilitation and improvement works of Matara - Godagama Road had been completed as targeted while other roads had been completed with delays ranging from 172 days to 338 days.

3.2 Extraneous Transaction

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Although the Project had spent a sum of Rs.18.33 million for the acquisition of lands for rehabilitation of 17.60 kilometres of Galle- Baddegama Road	The expenses made by the Project used to meet other purposes.	This road was a priority road in the Master Plan. Due to limitation of funds,	Need to adhere with the scope of the works of the Project.

in the Southern Province, the rehabilitation works of the respective section of the road had not been carried out.

the reconstruction works of the road was not commenced. However, land acquired for this purpose will be utilized in future.

3.3 Issues on Acquisition of Lands

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>According to the information made available, it was scheduled to acquire 7,082 plots of land including 1,535 plots of crown land and out of that compensation amounting to Rs. 1,933 million for 4,343 plots of land had been paid under the Section 17 of the Land Acquisition Act. Further, the additional payments amounting Rs. 4,134 million had been made thereon under the decisions of the Land Acquisition and Resettlement Committees. In addition, a sum of Rs.379.44 million had been paid as interest on delays in settlement of compensation up to 31 December 2018. The Project had not completed the acquisition process of any plot of land even as at 31 December 2018, under Section 44 of the Land Acquisition and Resettlement Act, No. 13 of 1986.</p>	<p>Possible dispute on issues of acquisition of lands and additional cost might be incurred.</p>	<p>The registration works under Sec 44 of the Land Acquisition Act had been started in 2019.</p>	<p>The attention on acquisition of lands is needed urgently.</p>