

Northern Road Connectivity Project (Additional Financing) Provincial Component - 2018

The audit of financial statements of the Northern Road Connectivity Project (Additional Financing) Provincial Component 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 Article 4.04 of the Loan Agreement No. 2890-SRI (SF) dated 19 November 2012 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

According to the Loan Agreement, Ministry of Local Government and Provincial Councils, Presently the Ministry of Internal and Home Affairs, Provincial Councils and Local Government is the Executing Agency and the Provincial Road Development Department of Northern Provincial Council and the Provincial Road Development Authority of North Central Provincial Council are the Implementing Agency of the Project. The objective of the Project is to improve the road connectivity within the Northern Province and between the Northern region and the Southern region of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 34 million equivalent to Rs. 4,600 million and out of that US\$ 30 million equivalent to Rs 4,058 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 31 May 2013 and scheduled to be completed by 30 June 2018. However, the period of the Project was 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 the 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 Presentation of Financial Statements

| Accounting Deficiency | Impact | Response of the Management | Auditor's Recommendations |
|---|---|-----------------------------------|---|
| The period of the Project was ended in December 2017 and no action had been taken to wind-up the activities of the Project by handing over the assets and liabilities to the Executing and Implementing Agencies. | Misrepresentation of Financial Statements | Comments not presented | Once the activities of the Project is closed or period of the Project is over, the winding up account should be prepared. |

3. Physical Performance

3.1 Contract Administration

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|--|---|--|--|
| It was observed that a sum of Rs. 1,553.50 million had been spent on the contracts on rehabilitation of roads of Vattapalai-Keppaipilavu-Puthukudiyiruppu, Kiriketuwewa-Bandaraulpatha-Kapugollewa, Athakada-Atambagaskada - Thonigala and Kirigollewa-Hiralugama exceeding the agreed total cost amounting to Rs. 1,441.41 million. | Increase of the cost of the Project by Rs. 92.13 million, due to weakness on supervision of contracts awarded by the Project. | Due to price variations and the taxes to be paid thereon, the costs of the contracts had been increased. | The supervision of the contracts should be strengthen in order to minimize the inefficiencies. |