

## **Northern Road Connectivity Project (Additional Financing) of the Provincial Component - 2019**

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The audit of financial statements of the Northern Road Connectivity Project (Additional Financing) Provincial Component for the year ended 31 December 2019 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. My comments and observations which I consider should be reported to the Parliament appear in this report.

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

According to the Loan Agreement, then Ministry of Local Government and Provincial Councils, presently the Ministry of Public Service, 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 and the Southern regions 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 balance of US\$ 4 million financed by the Government of Sri Lanka. 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 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 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 section of 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 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.

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

## **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. Physical Performance**  
**2.1 Wind Up of the Project**

The following observations are made.

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) Although the period of the Project was completed in December 2019, the action had not been taken to wind-up the activities of the Project by handing over the assets and liabilities to the Executing and Implementing Agencies. Further, the financial statements had been prepared for the year ended 31 December 2019 without considering the concept of going concern of the activities of the Project	Misrepresentation of Financial Statements	Project was extended by another 06 months up to 30 June 2020 and the therefore winding up activities will be completed once the project is over by 30 June 2020.	The financial statements should be prepared based on the concept of going concern and required to prepare winding up account for the Project.
(b) Eventhough preparation of Project completion report had been assigned to an Individual Consultant, the final report had not been completed up to 31 December 2019.	The inventorying the assets developed by the Project will not be taken to the accounts of the Provincial Agencies and project closing date had to be extended.	Preparation of Project Completion Report is assigned to an individual consultant. He has now submitted the draft final report to the project and it is being reviewed by the project & ADB. Once the comments from employee and ADB are submitted to the consultant final report will be submitted by him.	Action should be taken to complete the work within agreed period.