

Northern Road Connectivity Project (Additional Financing) – Provincial Component -2020

The audit of financial statements of the Northern Road Connectivity Project – Additional Financing – Provincial Component Project for the year ended 31 December 2020 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 provisions in 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 Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Provincial Councils & Local Government, presently the State Ministry of Provincial Councils & Local Government Affairs 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 Agencies of the Project. The objective of the Project is to improve connectivity between national roads and Provincial roads thus the transport networks of Northern Province and North Central Province is enhanced. 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 had commenced its activities on 31 May 2013 and completed on 30 June 2020.

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 2020 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 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 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 scepticism 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

No	Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
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		Rs. million		
(a)	Although the Project period was completed on June 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 2020 without considering the issue of going concern of the activities of the project.	4,410.45	Action will take to wind-up after reviewed the Audit Report on Financial Statement -2020	The project should be wind-up immediately after the end of Project period by submitting wind-up accouts.
(b)	It was observed that the action had not been taken by the Project to allocate the cost incurred by the Project for each road which were developed and hand over to relevant councils, eventhough the Project had completed development activities of the provincial roads.	4,410.45	After reviewed the Audit Report on Financial Statement-2020 action will take to handover.	Action to be taken to allocate total costs to each road and hand over to relevant councils.