

Northern Road Connectivity Project (Additional Financing) – Provincial Component - 2017

The audit of financial statements of the Northern Road Connectivity Project (Additional Financing) – Provincial Component for the year ended 31 December 2017 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 4.04 of Article (iv) 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 of the Project, then the Ministry of Local Government and Provincial Councils, presently the Ministry of Provincial Councils, Local Government and Sports 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 the road connectivity within the Northern Province and between the Northern region and the Southern region of Sri Lanka. The activities of the Project consisted with;

Part B. Rehabilitation and Replacement

Rehabilitation of about 50 kilometres of provincial roads and rehabilitation and/or replacement of selected bridges in the Northern Province.

Part C. Rehabilitation and Replacement

Rehabilitation of about 70 Kilometers of provincial roads and rehabilitation and/or replacement of selected bridges in the North Central Province.

As per the Project Administration Manual, the estimated total cost of the Project amounted to 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 the Asian Development Bank. The Project commenced its activities on 31 May 2013 and scheduled to be completed by 30 June 2018. Subsequently, the period of the Project had been extended up to 31 December 2019.

1.3 Responsibility of the Management for the Financial Statements

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

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc.
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the opening and closing balance, withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2017 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards,
- b) the funds provided had been utilized for the purposes for which they were provided,
- c) the opening and closing balance, withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2017 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- f) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year 2017		up to 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	30.00	4,058.82	538.98	2.40	309.40	29.56	3,725.80
GOSL	4.00	541.18	63.18	0.41	51.40	3.40	435.20
Total	<u>34.00</u>	<u>4,600.00</u>	<u>602.16</u>	<u>2.81</u>	<u>360.80</u>	<u>32.96</u>	<u>4,161.00</u>

3.2 **Physical Progress**

The following observations are made.

- (a) According to the Implementation Plan of the Project, 07 provincial roads in Anuradhapura District with the length of 75.65 kilometres, 04 provincial roads in Killinochchi District with the length of 24.11 kilometres and 02 provincial roads in Mulathivu District with the length of 24.49 kilometres were expected to be rehabilitated during the period of the Project. According to the progress reports, the rehabilitation works of all the provincial roads had been completed as at 31 December 2017. The maintenance works of roads was expected to be carried out by the contractors engaged in road rehabilitation works up to 30 June 2018.
- (b) The site visits made by auditors on 04 June 2018 to inspect the rehabilitated roads of Thekkawaththa - Pulleliya Road, Dachchidamana - Paranaalmillewa Road, Kiriketuwewa - Bandraulpatha - Kapugollewa Road and Yakawewa – Mahakoongaskada Road in the North Central Province had revealed that the maintenance works of the respective roads were neglected by the contractors and appeared with cracks, potholes and damages at the edges of the roads etc.
- (c) The contract awarded to rehabilitate 20.30 kilometres of Kiriketuwewa - Bandraulpatha - Kapugollewa Road in the North Central Province had been completed and handed over on 17 March 2015. It was observed in audit that the rehabilitation works of 19.95 kilometres of the Road had only been completed and the total cost of the contract amounting to Rs. 559.37 million had been paid to the contractor.