

Hatton-Nuwaraeliya Road Improvement Project - 2018

The audit of financial statements of the Hatton-Nuwara Eliya Road Improvement Project 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 the Loan Agreement No. SRI-20 dated 02 November 2010 and supplementary Loan Agreement No.SRI-26 dated 22 June 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Economic Development Co-Operation Fund. 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 Program

According to the Loan Agreements, then Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are stimulating of socio-economic growth and development balance in the Central Province by improving Hatton - Nuwara Eliya Road of 35.60 kilometres, construct Kotagala Tunnel and Nanuoya under pass railway bridge as enable to improve access to the markets and provide employment opportunities and social services within Nuwara Eliya district. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 70.40 million equivalent to Rs.9,061 million and out of that US\$ 57.14 million equivalent to Rs.7,049.37 million was agreed to be provided by the Economic Development Co- Operation Fund. The Project commenced its activities on 01 December 2011 and scheduled to be completed by 31 December 2015. In addition the Economic Development Co-Operation Fund had agreed to provide funds through a supplementary Loan amounting to US\$ 17 million equivalent to Rs.2,010.2 million to meet the cost on price escalation, additional works and construction of Nanuoya under pass and the Kotagala Tunnel. Further, it was subsequently decided to improve the section from 68.50 kilometres to 72 kilometres of Avissavella - Hatton Road, using the savings of allocation made under the supplementary Loan facility and extended the period of the Project up to 31 January 2016.

1.3 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared 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 Program 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 Accounting Deficiency

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendation
The road rehabilitation works of Hatton-Nuwaraeliya Road and other improvement works of the Project including Kotagala tunnel, Nanuoya underpass and road section from 68.5 kilometres to 72 kilometres on Avissawella – Hatton Road had been completed by 31 December 2016. However, instructions had not been issued by the Executing Agency to wind up the operations of the Project Monitoring Unit and prepare the financial statements accordingly.	Addition cost and time spent to maintain the Project Monitoring Unit.	Eventhough the road construction activities are completed, still land acquisition payments had to be made in Hatton – Nuwara Eliya Road Improvement Project. Therefore, winding up accounts for the Project had not been prepared up to date.	Need to take action to take over the assets and liabilities of the Project by the Implementing Agency and attend unresolved matters on land acquisitions.

3. Physical Performance

3.1 Issues on Land Acquisition

Auditor Issue	Impact	Response of the Management	Auditor's Recommendation
Eventhough the land acquisition process had been commenced in 2011, the compensation payments aggregating Rs.31 million had been made as at 31 December 2018 for 703 plots of land, out of 2,501 plots of land scheduled to be acquired including 677 plots of crown land. In addition to that, a sum of Rs.1.0 million had been paid as interest charges as at 31 December 2018, due to delays in settlement of compensation payment to acquire 32 plots of land.	Possibility to increase the interest costs on compensation, due to delays in settlements of claims.	Accepted.	Need to take prompt actions to settle the compensation and avoid additional costs thereon.