

## **Western Province Road Development Project - 2018**

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The audit of the financial statements of the Western Province Road Development 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 provisions in the Loan Agreement No. 1662P dated 26 June 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development. 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 the Ministry of Ports, Shipping and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is upgrading, improvement and widening of 27 kilometres of pre-selected national highways in the Western Province of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 05 October 2017 and scheduled to be completed by 28 June 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 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 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 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's 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 Accounting Deficiency

<b>Accounting Deficiency</b>	<b>Amount Rs. million</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The value of work-in-progress and the payable to the contractors as at 31 December 2018 shown in the financial statements had been understated by Rs. 79.59 million, as a result of the total value of works certified as at that date was not brought to account.	79.59	Understatement of work –in - progress account and contractor payable account.	No comments received.	The financial position of the Project as at 31 December 2018 needed to be reflected in the financial statements.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

According to the Project Documents, the rehabilitation works of 25.81 kilometres of the national roads were expected to be carried out and awarded contracts thereon under 02 contract packages. Eventhough the Loan Agreement was signed on 26 June 2015, the rehabilitation works of 02 roads under the Contract Package - I had been commenced on 29 January 2018 whilst commencing of rehabilitation works of other 02 roads under the Contract Package -II on 05 October 2017 with delays, due to time taken to acquisition of lands. The following observations are made.

	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	According to the progress reports of the Project, the contractor had achieved only 11 per cent of physical progress on rehabilitation of Kaduwela - Athurugiriya Road and Walgama - Athurugiriya Road against the targeted progress of 30 per cent of the works under the Contract Package -I.	Possibility to complete the road rehabilitation works with delays and increase the cost of the Project.	No comments received.	Action should be taken to expedite the road rehabilitation activities to complete the works on targeted dates.

(b) The physical progress of road rehabilitation works under the Contract Package -II had remained at 10 per cent, behind the target of 49 per cent of progress required to be achieved as at 31 December 2018, due to delays in land acquisition activities and relocation of electricity transmission lines.

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