

## **OPEC Funded Western Province Road Development Project - 2019**

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The audit of the financial statements of the OPEC Funded Western Province Road Development Project 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. 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 of the Project, then the Ministry of Highways and Investment Promotions, presently the Ministry of Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is the upgrading, improvement and widening of 27 Km 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 had commenced its construction activities on 05 October 2017 and scheduled to be completed by 28 June 2019. Subsequently, the activities of the Project had extended up to 30 September 2021.

### **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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 Projects 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 the 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 Deficiencies

No	Audit Issues -----	Amount ----- Rs. million	Impacts -----	Management Responses -----	Auditor's Recommendations -----
(a)	According to the information of the External Resources Department (ERD), the Project had disbursed Rs.643.56 million from the loan account during the year under review whereas the disbursement amount of Rs.440.18 million was shown in the financial statements. As a result, loan account had been understated by Rs.203.38 million in the financial statements.	203.38	The loan account had been understated by Rs.203.38 million.	The difference of the total disbursement balance amounting to Rs.203,375,878.25 has been accounted as foreign aid receivable for year 2019.	Loan disbursement should be correctly recorded to reflect the correct financial position of the Project as at 31 December 2019.
(b)	A provision had not been made on behalf of the claims aggregating to Rs.65.46 million made under Interim Payment Certificate No.15 and No.23 relating to the work done for the month of December 2019 in the financial statements.	65.46	Understatement of work-in-progress account and contractor payable account.	The referred Interim Payment Certificates were received to PMU after the preparation of the Financial Statements. Therefore, above IPCs were accounted in year 2020.	Correct financial position of the Project need to be reflected in the financial statements as at 31 December 2019.
(c)	Project allowances amounting to Rs.10.49 million shown in the financial statements had been overstated by Rs.1.65 million, due to incorrect method adopted by the Project to allocate the common expenses among other 6 project prevailed in the Project Monitoring Unit without considering the cost of the projects.	1.65	Overstatement of the Project cost.	Noted, correction will be made under the year 2020 as mentioned in your report.	Correct method should be applied to allocate common overhead cost among each projects remained in the Project Monitoring Unit.

(d)	Value Added Tax amounting to Rs.203,537 relating to Consultancy claim for the month of July 2019 had not been recorded to the relevant accounts. As a result, Project expenditure had been understated by that amount in the financial statements.	0.203	Understatement of Consultancy cost of the Project.	Noted and recorded correctly in the relevant accounts in the year 2020.	Action should be taken to record transactions in the relevant ledger accounts to reflect the accuracy of expenditure for the year.
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### 3. Physical Performance

#### 3.1 Physical Progress of the activities of the Project

- (a) Eventhough the Loan Agreement was signed on 26 June 2015, the rehabilitation works of package -I had been delayed 2 years and 06 months whilst rehabilitation works of contract package-II had been delayed 2 years and 3 months, due to delay in lands acquisition activities.
- (b) The Kaduwela – Athurugiriya road under the road Improvement contract Package 1 was 52.93 per cent behind the planned physical progress and Walgama – Athurugiriya road was 68.37 per cent behind the planned physical progress while, the road improvements on all roads under contract package 2 were 90 per cent behind the planned progress.

#### 3.2 Issues on Land Acquisition

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
2,611 plots of land including 416 plots of crown land had been acquired by the Project and compensation amounting to Rs.486.86 million had been paid for 218 plots of land as at 31 December 2019. However, none of the plots of land had been registered under Section 44 of the Land Acquisition Act, due to insufficient funds allocated for the payment of interest.	Possible increase of costs on compensation and interest payments thereon.	Agreed.	Need to take expedite action to transfer the rights of the land to the Road Development Authority.