

## **Southern Highway Investment Programme Project - 2014**

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The audit of financial statements of the Southern Highway Investment Programme Project for the year ended 31 December 2014 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 Article 25.2 of Grant Agreement No. 8271- SRI dated 09 November 1995 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 Grant Agreement of the Project, then Ministry of Ports, Highways and Shipping, presently Ministry of University Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to improve the institutional and policy frame work for expressway development and operation and to prepare a feasibility study and preliminary design including technical, commercial, financial, and economic and safeguard aspects of Southern Expressway. As per the Grant Agreement, the estimated total cost of the Project was US\$ 1 million equivalent to Rs.130 million. Eventhough the Project Agreement had been entered in to on 09 November 1995 under the Technical Assistance Framework of the Asian Development Bank, the Project commenced its activities in February 2013 and scheduled to be completed by June 2014. However, the activities of the Project had been completed as at 31 December 2014.

### **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 judgement, 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 Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Grant, etc.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (g) Whether the financial covenants laid down in the Grant 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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Grant Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiency**

Refundable deposit amounting to Rs.320,000 made on hiring of a office building had not been brought to the account.

## **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 2014 are shown below.

Source	Amount agreed for financing according to the Grant Agreement		Allocation made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	1.0	130	85	0.13	16.45	0.13	16.45
GOSL	-	-	20	-	16.72	-	20.12
RDA Loan	-	-	-	-	3.00	-	3.00
	<b>1.0</b>	<b>130</b>	<b>105</b>	<b>0.13</b>	<b>36.17</b>	<b>0.13</b>	<b>39.57</b>

### **3.2 Physical Progress**

The output of the Project was expected to be achieved through 03 components and the allocation of US\$ 1.00 million equivalent to Rs.130 million made thereon. However, such allocation had not been segregated for each component and not prepared detailed financial plans accordingly. The following observations are made on the physical progress of the activities of the Project as at 31 December 2014.

- (a) The service of the Experts had been obtained by the Project to prepare an Action Plan for strengthening the institutional and policy frame work on expressway development and maintenance purposes under the first component of the Project. Eventhough the Action Plan had been prepared and furnished to the Executing and Implementing Agencies in November 2013 there were no information received on actions taken to implement such recommendations.
- (b) Under the second component of the Project, the appropriate construction technologies for Sri Lanka's road sector to be prepared, recommended and provided in house or overseas training programmes. The Report on Construction Technologies had been prepared and presented in November 2013 and no information had been received on mechanism developed for the new construction technologies for the roads.
- (c) It was expected to provide technical support for preparation of the feasibility studies and preliminary designs for the extension of Southern Expressway and improve the implementation readiness under the third component of the Project. However, only the feasibility study and the preliminary engineering works of proposed traces of extension of Southern Expressway to link Colombo City with the existing expressway network had been carried out.