

## **OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project -2014**

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The audit of financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project for the first accounting period from 11 December 2013 to 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 Loan Agreement No. 15111PB dated 10 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, then Ministry of Highways and Investment Promotion presently, the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to upgrade 65.45 kilometres of key highways and reconstructing the Narahenpita-Nugegoda Bridge. As per the Loan Agreement, the estimated total cost of the Project was US\$ 94.99 million equivalent to Rs.12,347.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017.

### **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 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 risk of material misstatements 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 identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) 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 first accounting period 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 Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided and
- (c) 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 first accounting period ended as at 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the first accounting year	Funds utilized as at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
OPEC - Loan	50.00	6,499.57	114.53	0.88	114.53
GOSL	44.99	5,847.80	0.43	-	0.50
	<u>94.99</u>	<u>12,347.37</u>	<u>114.96</u>	<u>0.88</u>	<u>115.03</u>

### **3.2 Physical Progress**

The following observations are made.

- (a) According to the information received, the Project had awarded contracts in December 2014 to rehabilitate 05 roads with the length of 12.38 kilometres, out of 12 roads with the length of 65.45 kilometres expected to be rehabilitated under the Project. The contracts for rehabilitation of other 07 roads had not been awarded even as at 31 December 2014 due to delays in land acquisitions. Further, the land acquisition activities of Kotte-Bope Road and Navinna-Boralesgamuwa Road had not been commenced even as at 31 December 2014.
- (b) The contract of construction of Nawala Bridge awarded in 2013 which shown slow progress of 75.07 per cent as at 31 December 2014 had been completed on 31 August 2015.

### **3.3 Human Resources Management**

It was observed that the posts of Project Accountant, a Secretary, an Administrative Assistant, Transport System Analyst and a Resettlement Assistant had remained vacant over 01 year and affected to smooth functioning of the activities of the Project.