

## **Road Project Preparatory Facility Project - 2014**

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The audit of financial statements of the Road Project Preparatory Facility 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 Section 4.06(b) of Article iv of the Loan Agreement No. 2080 SRI(SF) dated 16 June 2004 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

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

According to the Loan Agreement of the Road Project Preparatory Facility, the Ministry of Highways and Investment Promotion is the Executing Agency and the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is to support to the Government of Sri Lanka in deploying its road network efficiently. As per the Loan Agreement, the estimated total cost of the Project was US\$ 20 million equivalent to Rs.1,969 million and out of that US\$ 15 million equivalent to Rs.1,476.75 million was agreed to be provided by the Asian Development Bank.

The Project commenced its activities on 15 September 2004 and was scheduled to be completed by 30 June 2008. Subsequently, the period of the Project had been extended by six times up to 30 June 2015.

### **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 judgment, 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 the 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 identification of purchases made out of the Loan etc,

- d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- e) Whether the funds, materials and equipment 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 Public Sector Accounting Standards, and
- h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- i) Whether financial covenants laid down in the Loan Agreement had been complied with.

### **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report. 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Accounting Deficiencies

Eventhough the fixed assets procured by the Project, at a cost of Rs.6,729,144 had been transferred on 01 January 2014 to other Project implemented by the Line Ministry, the depreciation amounting to Rs.904,023 thereon for the year under review had been charged to work-in-progress. As a result, the value of work-in-progress shown in the financial statement was overstated by that amount.

## 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 utilization of funds during the year under review and up to 31 December 2014 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Budgetary provision for the year 2014	Funds utilized during 2014		Funds utilized up to 31 December 2014
	US\$. million	Rs. million	Rs. million	US\$. million	Rs. million	Rs. million
ADB	15	1,476.75	218.8	1.68	218.76	1,759.71
GOSL	05	492.25	3.0	-	2.14	385.64
	<u>20</u>	<u>1,969.00</u>	<u>221.8</u>	<u>1.68</u>	<u>220.90</u>	<u>2,145.35</u>

### **3.2 Physical Progress**

According to the information received, 2,200 kilometres of national roads and 2,900 kilometres of provincial roads had been selected by the Road Development Authority, Ministry of Local Government and Provincial Councils with the participation of the provincial road agencies to carry out feasibility studies and preparation of detailed designs for rehabilitation purposes. However, a contract had been awarded to provide consultancy services to rehabilitate 3,165 kilometres national roads and 3,119 kilometres of provincial roads at a cost of Rs.1,965 million. Out of that the detailed designs and feasibility studies for 1,821 kilometres of national roads and 3,143 kilometres of provincial roads had been completed as at 31 December 2014.

### **3.3 Matters in Contentious Nature**

A Register of Fixed Assets had not been prepared separately by the Project. A common Register of Fixed Assets had been maintained for the assets procured by the Northern Road Connectivity Project and Road Project Preparatory Facility. As a result, the fixed assets procured by this Project could not be identified and verified in audit.