

Southern Road Connectivity Project - 2014

The audit of financial statements of the Southern Road Connectivity Project for the first accounting period from 22 August 2014 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 Article 1 of Loan Agreement No.3028 – SRI (SF) dated 27 May 2014 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 Project, the Ministry of Highways and Investment Promotion is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the connectivity between expressway network and local transport network in southern region. As per the Loan Agreement, the estimated total cost of the Project was US\$ 6 million equivalent to Rs.791 million and out of that US\$ 5 million (SDR 3,329,000) equivalent to Rs.659 was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 22 August 2014 and scheduled to be completed by 30 June 2019.

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 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,
- c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- f) Whether the financial statements had been prepared on the basis of Sri Lanka public sector Accounting Standards, and
- g) Whether 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 period from 22 August 2014 to 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, 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 of funds, budgetary provision for the year under review and the utilization of funds as at 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocations made in the Budget Estimated for the year under review	Funds utilized during the year 2014	
	US\$ million	Rs. million		US\$ million	Rs. million
ADB	5	659	-	0.34	44.76
GOSL	1	132	-	-	-
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	6	791	-	0.34	44.76
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The total allocations made in the Budget Estimate for 2014 for Southern Road Connectivity Project amounting to Rs.300 million under the Loan and Rs.60 million for Local Contribution had been transferred by the General Treasury to other projects during the year under review. However, a direct payment of Rs.44.76 million had been made for consultancy services during the year under review.

3.2 Physical Progress

The following observations are made.

- (a) Although an overall project plan for entire period of the Project at the beginning of the Project and an action plan for the year under review should have been prepared to ensure the achievement of the pre determined targets in an economical and efficient manner within the specified period of the Project, no such project plan and an action plan had been prepared to monitor the activities of the Project during the year under review.
- (b) The consultancy services for screening of feasibility study and preparation of detailed engineering designs of national highways linking the expressways network had been commenced only on 09 December 2014 and reported the progress of 2.5 per cent on such activities as at 31 December 2014.