

Northern Road Rehabilitation Project (Rehabilitation of 67 kilometres of Navatkuli-Karaitivu-Mannar Road) 2015

The audit of financial statements of the Northern Road Rehabilitation Project (Rehabilitation of 67 kilometres of Navatkuli-Karaitivu- Mannar Road) for the year ended 31 December 2015 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. This Project is implemented under the Loan Agreement No. BLA 201111 dated 29 April 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Export-Import Bank of China.

1.2 Implementation, Objective, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports and Highways, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to rehabilitate of 67 kilometres of Navatkuli-Karaitivu-Mannar Road. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 56.9 million and out of that US\$ 48.3 million was agreed to be financed by the Export-Import Bank of China. The preliminary works of the Project was commenced on 10 November 2011 and scheduled to be completed by 09 May 2014. The activities of the Project had been substantially completed on 12 May 2014 and handed over to the Road Development Authority. However, the financial statements of the Project for the year end 31 December 2015 had been prepared and presented to audit.

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 judgment, including the assessment of the risk 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 satisfactory 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 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 in accordance with Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) 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 year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purpose 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 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 year under review and up to 31 December 2015 are shown below.

<u>Source</u>	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Funds utilized during the year up to 31 December 2015</u>	
	<u>US\$ million</u>	<u>Rs. million</u>	<u>Rs. million</u>	<u>Rs. million</u>
Import and Export Bank of China	48.3	6,532.5	932.02	6,422.28
GOSL	8.6	1,289.8	21.39	1,247.58
RDA Special Loan	-	-	-	23.98
	<u>56.9</u>	<u>7,822.3</u>	<u>953.41</u>	<u>7,693.84</u>

3.2 Physical Progress

The rehabilitation and improvement works of 67 kilometres of Navatkuli-Karaitivu-Mannar Road was commenced on 10 November 2011 had been completed and the Road was handed over to Road Development Authority on 15 May 2014. According to the Project documents, it was expected to improve the road network in the Northern Province up to national standards and provide better and safer access for pedestrians and cyclists. However, width of the Road had been reduced by 1.2 metres without considering the required national standards. Further, rehabilitation activities of 06 bridges including Sangupiddy Bridge had also been curtailed.

3.3 Contract Administration

Eventhough the defect notification period had been extended by 06 months up to 15 November 2015, no evidence was made available for audit on rectification of defects on layering of Asphalt at 23+700 kilometre of Poonarin Section, level differences of 03 culverts and rip rap protection at 03 locations of the Road which identified by the Engineer at site inspection made on 13 May 2015.

3.4 Unresolved Issues Highlighted in the Previous Audit Reports

The following instances of non - compliance highlighted in the previous year audit report were remained unresolved even at the end of the year under review.

- (a) Road Development Authority had recovered overhead costs of Rs. 758,439 and bonus and medical allowance of Rs. 629,104 paid in the previous year to the staff members of the Road Development Authority attached to the Project, contrary to the Sections 8.39 and 8.6 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises. Further, it was observed that the practice had been continued and overhead cost of Rs. 1.59 million and bonus and medical allowances of Rs. 210,938 had been paid even during the year under review.
- (b) The remuneration of the staff members of the Road Development Authority attached to the Project had been calculated based on the formula introduced by the Road Development Authority, contrary to the Circular No. 33 of 05 April 2007 of the Department of Management Services.