

Padeniya- Anuradhapura Road Improvement Project - 2015

The audit of financial statements of the Padeniya - Anuradhapura Road Improvement Project 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 read in conjunction with Article 1 of Loan Agreement No.SRI-18 dated 19 December 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the Export and Import Bank of Korea which is the Government Agency for the Economic Development Cooperation Fund.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Highways, Ports and Shipping presently, Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are (a) to activate the region's exchange in goods and people, as well as promote national economic development and balanced regional development by cutting social costs and raising industrial competitiveness through improvement of the road section between Padeniya – Anuradhapura road located in the key traffic point of the Northern Central region of Sri Lanka and (b) to link the road to the Katunayake – Padeniya Section also being planned and it is hoped to strengthen the international competitiveness of Sri Lanka's tourism industry by facilitating passenger transportation between the Bandaranayake International Airport located in Katunayake and the Northern Central region of Sri Lanka, which is rich in cultural heritage and tourist attraction. The estimated total cost of the Project was Rs.9,670 million and out of that, a sum of Rs.7,554.03 million equivalent to US\$ 55 million was agreed to be provided by the Economic Development Cooperation Fund. The initial Loan amount had been increased by a Supplementary Loan of US\$ 11.32 million equivalent to Rs.1,232.90 million in November 2012. The activities of the Project had been commenced on 01 July 2009 and scheduled to be completed within 30 months by 01 January 2012. Although the activities of the Project was completed only on 30 November 2012, the financial statements had been prepared for the year ended 31 December 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 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, the progress of the Project in financial and physical terms, and the assets and liabilities arising from the operations of the Project.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project, and
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,

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 Public Sector Accounting Standards, and
- (b) the funds provided had been utilized for the purposes for which they were provided.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Although the road construction works had been completed on 30 November 2012, the total expenditure of the Project amounting to Rs.10,639 million had been shown under the Work-in-Progress in the financial statements for the year ended 31 December 2015.

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.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimates for the year under review	Funds utilized		
				during the year 2015	31 December 2015	
	US\$ million	Rs. million	Rs. million	Rs. million	US\$ million	Rs. million
EDCF	66.32	8,786.93	-	-	66.32	9,292.15
GOSL	-	2,115.97	31.31	31.31	-	1,335.85
	<u>66.32</u>	<u>10,902.90</u>	<u>31.31</u>	<u>31.31</u>	<u>66.32</u>	<u>10,628.00</u>

3.2 Physical Progress

The reconstruction works of the road had been completed and handed over to the Road Development Authority on 30 November 2012. However, the activities of the Project was continued up to 31 December 2015, as the payments for compensation on lands acquired for the road reconstruction works was not completed.

3.3 Land Acquisition activities

According to the information furnished by the Project, 3,996 plots of land including crown lands in 08 Divisional Secretariat Divisions were expected to be acquired. However, compensation had been paid only for 1,005 plots of lands as at 31 December 2015. Out of that, only 387 plots of land had only been registered at the Land Registry as per Section 44 of the Land Acquisition Act. Further, interest amounting to Rs.4.93 million had to be paid as at 31 December 2015 by the Project due to delays in paying compensation for land owners.

3.4 Matters in Contentious Nature

Eventhough the activities of the Project had been completed in 2012, the special advance amounting to Rs.11.28 million obtained from the Road Development Authority had remained outstanding as at 31 December 2015 without taking action to settle.