

Southern Road Connectivity Project (Expressway Connectivity Improvement Plan) 2016

The audit of financial statements of the Southern Road Connectivity Project for the year ended 31 December 2016 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 I of the Loan Agreement No. 3028 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highway, presently the 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 screening, feasibility study and detailed engineering design of national highways linking the Expressway Network. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 6.08 million equivalent to Rs. 801.34 million and out of that US\$ 05 million equivalent to Rs.659 million 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 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 opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) 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,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) 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 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocations made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	5.00	659.00	275.00	1.81	274.88	3.29	470.35
GOSL	1.08	142.34	20.00	-	19.40	-	24.40
Total	<u>6.08</u>	<u>801.34</u>	<u>295.00</u>	<u>1.81</u>	<u>294.28</u>	<u>3.29</u>	<u>494.75</u>

3.2 Physical Progress

The main contract on consultancy services for screening, feasibility study and preparation of detailed engineering designs of 200 kilometres of national highways linking the Southern Expressway was awarded to a foreign consultancy firm on 09 December 2014 at a cost of US\$ 3.48 million equivalent to Rs. 461.97 million had been commenced and completed with submission of all deliverables on 31 August 2016. Further, 05 other consultancy contracts had been awarded in order to utilize the balance of funds of the Project which remained unspent and out of that the contract offered on transport and highway planning and bridges and structural designing of extensions of Southern highways had been completed on 31 March 2016, at a cost of Rs 27.80 million.

3.3 Contract Administration

The final reports on consultancy contract awarded for detailed designing of proposed Central Expressway at Rs. 29.62 million had not been furnished even 30 June 2017, eventhough such reports were scheduled to be submitted by 31 July 2016. The other consultancy contracts awarded at a cost of Rs. 5.97 million in March 2016 on assisting of the Road Development Authority for bridges and structural designing of the Central Expressway had been withheld halfway in June 2016 and no reasons thereon had been explained for audit.

3.4 Matters in Contentious Nature

It was observed that Value Added Tax amounting to Rs. 6.78 million and Nations Building Tax amounting to Rs. 1.23 million had been paid as at 31 December 2016 on the payments made to the Consultants. However, the implementing Agency had not taken steps to exempt local taxes on payments to the foreign Consultants. Further, income tax amounting to Rs. 11.68 million had also been paid by the Project on behalf of the Consultants based on their salaries.