

## **Southern Road Connectivity Project - 2018**

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The audit of the financial statements of the Southern Road Connectivity Project for the year ended 31 December 2018 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 provisions in the Loan Agreement No. 3027 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

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

According to the Loan Agreement of the Project, then Ministry of Ports and Highways presently, the Ministry of Highways, Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve national transport efficiency by upgrading and rehabilitating 33 kilometres of the roads linked to the southern Highway. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 95 million equivalent to Rs.12,248 million and out of that US\$ 70 million equivalent to Rs.9,025 million was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 27 May 2014 and scheduled to be completed by 30 December 2018. However, the date of completion of the activities of the Project had been extended up to 30 June 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Projects ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to

liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comment on Financial Statements

### 2.1 Accounting Deficiency

Accounting Deficiency	Impact	Comment of the Management	Auditor's Recommendation
Interest on the Loan and the commitment charges aggregating Rs.220.94 million recovered by the Lending Agency, as per the Sections 2.02 and 2.03 of the Article II of the Loan Agreement had not been separately disclosed in the financial statements of the Project.	Omission	Agreed	Need to empathize to consider all the cost related to implement the activities of the Project.

## 3. Physical Performance

### 3.1 Physical progress on the activities implemented by the Project

The activities of the Project was scheduled to be implemented under 04 contract packages to rehabilitate 33 kilometres of 06 national roads in Colombo district. The rehabilitation works of 4.64 kilometres of Moratuwa- Piliyandala Road and Ratmalana- Mirihana Road implemented under the Contract Package-01 had been completed on 19 June 2017 with delays of 248 days. Further, the rehabilitation works of 10.37 kilometres of the road connected from Madurugoda to Southern Expressway under the Contract Package -03 had been completed and handed over to the Road Development Authority on 28 November 2018. The following observations are made.

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	It was observed that the works under 235 items of Bill of Quantities valued at Rs.134.32 million under the Contract Package -01 and the works under 260 items of Bill of Quantities valued at Rs 189 million under the Contract Package -03 had not been attended by the contractors. Thus it indicated that the Engineer's Estimates of the contract packages were not prepared in accurate manner allowing additional advantages to the contractors on receiving mobilization advances for non attended works valued at Rs.61.72 million.	Possible increase of the cost of the contract and wastage of funds due to poor contract administration	Estimates are prepared at the planning stage. It is not possible to prepare a percent accurate estimate without doing proper underground and other area investigation in construction area. Therefore, some items have to be forecasted and some items may not be required at the construction stage.	Detailed Engineering studies including underground surveys and other investigations need to be done before making estimates and the scope of works.

- (b) The contract for rehabilitation works of 16.18 kilometres of Kirulapona – Homagama Road and Kesbewa – Pokunuwita Road under the Contract Package - 02 scheduled to be completed by 16 May 2019 had been extended up to 17 November 2019, due to extra works added to the initial scope of works. In addition, the rehabilitation works of 1.8 kilometres of the road from Ambatale to CINEC Junction had not been completed as at 31 December 2018 even with delays in 274 days, due to the subsequent scope changes.
- Possible increase of costs, due the extension of time and additional works.
- The works under contract package -02 is substantially completed and the works under the contract package -04 is remained in progress.
- Action should be taken to minimize the delays and reduce the possible additional costs.