

Southern Road Connectivity Project (Expressway Connectivity Improvement Plan) - 2019

The audit of financial statements of the Southern Road Connectivity Project (Expressway Connectivity Improvement Plan) for the year ended 31 December 2019 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 Section 2.09 of Article II 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 Road and Highways is the Execution Agency and Road Development Authority is the Implementation Agency of the Project. The objectives of the Project are (a) screening the national highways linking expressway network for the needs of improvement (b) programming the future projects for feasibility study, detailed engineering, land acquisition and resettlement, and procurement of civil works (c) carrying out feasibility study for about 250km of national highways (d) undertaking detailed engineering for about 200km of national highways (e) assisting in improving the design standards and construction technology (f) delivering training programs about the planning methodology, design standards and construction technology. design of national highways linking the expressway network. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 6.00 million equivalent to Rs.790.80 million and out of that US\$ 5 million equivalent to Rs.659 million was agreed to be financed by Asian Development Bank. The Project commenced its activities on 22 August 2014 and scheduled to be completed by 30 June 2019. However, the date of completion of the activities of the Project had been extended up to 31 December 2019.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 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.

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

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. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendation
The loan amounting to US\$ 74,963.84 equivalent Rs.13.59 million had to be refunded to the ADB, due to winding up the loan account on 31 December 2019. However, a sum of US\$ 238.41 equivalent to Rs.43,222 of GOSL fund included in the above refund had not been correctly recorded to the Loan account in the financial statements of the Project in 2019.	0.043	The loan amount in the financial statements was overstated by Rs.43,222.	Agreed. When preparing JV No 16, this was considered as exchange rate variance and thereby transferred to WIP account.	The source of financial arrangements needs to be disclosed in proper manner in the financial statements.

3. Physical Performance

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Expressway Connectivity Improvement Plan Project was commenced on 22 August 2014 for achieving the objectives of consulting service to assisting the Road Development Authority in capacity development and enhancement. The Project had completed feasibility studies and detailed designs of 250.88 kilometres and 239.07 kilometres roads of 17 national and 11 provincial roads and consultant had completed the tasks and handed over all feasibility study reports and designs to the Road Development Authority in 31 August 2016 by	Expenditure incurred for the designing of road had become fruitless.	Yes. Agreed. All the completed designs were already handed over to the RDA for necessary action and implementing since almost the proposed roads require land acquisition, the implementation could not be commenced until the adequate land plots are acquired. However, some of the selected roads are followed up by RDA for implementing. Nevertheless, there is	Roads rehabilitation works are required to be commenced immediately after design completed.

expending Rs.482.92 million. However, 90 per cent of these designs had been outdated as at 31 December 2019, due to delaying the construction activities of the respective roads. Further, it was observed that the payment of Rs.20.94 million had been made to two consultants to assist to the Road Development Authority for the preparation of the Road Master Plan for the year 2018 – 2027. However, the road master plan had not been completed even as at 31 December 2019.

no provision in this loan for the ECIP to implement above construction.

3.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>Although, the ADB Loan Agreement was signed on 27 May 2014 for US\$ 5 million with effect from 22 August 2014, an amounting to US\$ 791,733 equivalent Rs.143.53 million had not been utilized by the Project at the closing date of the loan on 31 December 2019, due to delays in implementing activities of the Project. In addition to that, Out of total allocation of Rs.24 million for foreign loan and Rs.30 million for GOSL for the year 2019, an allocation amount of Rs.6 million of foreign loan and Rs.29 million of GOSL had been transferred to other projects implemented by in the Line Ministry during the year 2019. As a result, the Project objectives such as</p>	<p>The loan amount of Rs.143.53 million could not be utilized by the Project to complete the balance scope of works of the Project.</p>	<p>The total disbursement is US\$ 4,208,266.63, out of loan amount of US\$ 5 million which is 84.17 per cent of loan amount. The loan amount includes loan contingency, interest, estimated PMU expenditure etc. The savings was transferred to SRCP.</p>	<p>Need to plan all scope of works of the Project properly to complete within the period of the Project.</p>

assisting in improving the design standards and construction technology, delivering training programs about the planning methodology and design standards and construction technology had not been fully achieved by the Project.