

Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Improvement) - 2019

The audit of the financial statements of the Transport Connectivity and Asset Management Project – Component 02 (Provincial Road Improvement) 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 Article 4.2 of schedule 01 of the Financing Agreement No. 5788-LK dated 29 September 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Amendment Financing Agreement, the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments is the Executing agency and Provincial Road Authorities in all provinces are the implementing agencies for the revised Component 02. The objectives of the project are Strengthen the capacity of the Road Development Authority of asset management and improve access and management framework for Provincial roads. As per Financing Agreement of the project, the total estimated cost of the Project was US\$ 125 million equivalent to Rs. 21,875 million. As per amendment to the Financing Agreement of the project the estimated total cost of the revised Component 02 was US\$ 109 million equivalent to Rs. 19,075 million. The component commenced its activities on 02 May 2019 and scheduled to be completed by 31 March 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, 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 this 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 Project 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 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

Nos	Accounting Deficiency / Audit Issue	Amount Rs. Million	Impact	Response of the Management	Auditor's Recommendations
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a.	Total amount of Rs.81.55 million had been paid to four contractors as mobilization advance. However, mobilization advance had been accounted as final payment of civil work and work in progress respectively.	81.55	Misstatement of Financial Statements.	The issue will be rectified in future.	Financial Statement should be complied with Accounting Standard.
b.	As per Article II of Financing Agreement, the Commitment Charges of unwithdrawn financing balance and Service charge and interests of withdrawn credit balance had not been brought to the financial statements.		-Do-	Payment record had not been received.	Action should be taken to keep the books of accounts with service charge and interest.

2.2 Non Compliance with Laws, Rules and Regulations

Nos	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Impact	Response of the Management	Auditor's Recommendations
a.	Cabinet Decision No.18/1682/805/051 and dated on 15 August 2018.	Project Management Unit and Provincial Level Implementation Units had to be established by absorbing suitable staff available in the Ministry. It was observed that none of the – Ministerial Staff had been appointed to Project Management Unit.	This will be affected to the success of implementation.	Absorption of suitable Ministerial Staff for the Project Management Unit is not necessary requirement.	Need comply with the Cabinet Decision.
b.	Management Service Circular No 1/2019 of 05 March 2019.	The Meeting of the Project Steering Committees required to be held once in 02 months. However, only a one meeting had been held during the year under review.	The monitoring activities of the project may not be carried out effectively.	No comment.	The meetings of the Project Steering Committees required to be held regularly.
c.	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Meeting of the Audit and Management Committees required to be held four in the year. However, meetings had not been held during the year under review.	The monitoring activities of the project may not be carried out effectively.	No comment.	The meetings of the Audit and Management Committees required to be held regularly.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
As per the restructuring paper, the 67-road works length of 302 Kms, estimated cost amount of Rs. 7,692.30 Million under 18 packages had to be offered during the year under reviewed. However, only 8 packages had been awarded. No any physical progress achieved.	<ul style="list-style-type: none"> a. Delays in completion. b. Over running of cost estimate. c. Expected benefits not received by intended parties. 	The time taken to review the price variations by the Ministerial Procurement Committee.	Action should be taken to expedite procurement process.

3.2 System and Controls

Nos -----	Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
a.	Annual Budget & Work Plan for year 2019 had not been completed to obtain approval from Steering Committee.	Project Progress could not be evaluated in timely & lack of focus.	Work plan and budget had been submitted to steering committee.	Action should be taken to prepare & obtain approval for Budget and Action Plan from the Steering Committee.

- b. It was observed that a Financial Management System of the project had not been introduced although Financial Manager (PS -3) for the Project Management Unit and nine Accountants (PS-4) had been appointed as well. Financial Management will be weakened. Procurement process is being carried out to purchase software called '**Quick Book**'. Action should be taken to introduce Financial Management System as per the Financing Agreement
- c. Project operation manual had not been prepared yet. Project was being implemented without applying guidelines in the field of organizational, administrative, monitoring and evaluation process. Financial Management Expenditure and procurement process are also to be established. Seeking approval from National Steering Committee. Action should be taken prepare and approve a Project Operation Manual according to the Loan Agreement.