

Northern Road Connectivity Project - 2021

The audit of financial statements of the Northern Road Connectivity Project for the period ended 30 September 2021 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 the Section 4.05 of Article IV of the Loan Agreement No.2639-SRI and Section 2.09 of Article II of the Loan Agreement No 2639/2640 (SF) SRI dated 27 August 2010 and section 4.04 and 4.05 of Article IV of the Loan Agreement No 2890 (SRI) SF and 2891 (SRI) dated 19 November 2012 entered into between the Democratic Republic of Sri Lanka and the Asian Development Bank. My comments and observation which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Ports and Highways, presently the Ministry of Highways is the Executive Agency and the Road Development Authority is the Implementing Agency of the Project. The Road Development Authority is responsible for the management and coordination of Project activities at the national level. The objective of the Project is to rehabilitate and improve 170 kilometers of national roads in the Northern and North Central Provinces. As per Loan Agreement, the initial estimated total cost of the Project amounted to US\$ 146 million equivalent to Rs. 16,790 million and out of that US\$ 130 million equivalent to Rs. 14,950 million was agreed to be financed by the Asian Development Bank. Further, the Asian Development Bank had agreed to provide US\$ 68 million equivalent to Rs. 8,840 million under the additional financing Loan Agreement No. 2890 SRI (SF) of 12 November 2012, out of which US\$ 34 million equivalent to Rs. 4,420 million had been allocated to Provincial Road Development Authorities of the Northern Province and North Central Provinces. In addition, US\$ 30 million equivalent to Rs. 3,900 million had also been allocated by the Asian Development Bank under the Loan Agreement No.2891 SRI of 12 November 2012 to national roads highways in the Northern and North Central Provinces. The Project commenced its activities under the initial Loan Agreement on 22 October 2010 and had been completed by 31 December 2016. The activities of the Project under additional financing arrangements were commenced on 13 May 2013 and scheduled to be completed by 31 December 2018 then extended up to 30 September 2021.

1.3 Opinion

In my opinion, the accompanying financial statement give a true and fair view of the financial position of the Project as at 30 September 2021, statement of expenditure and its cash flows for the year the ended in accordance with the 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 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.

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 scepticism 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 Deficiency

Accounting Deficiencies

Management Response

Auditor's Recommendation

Although the Project had prepared liquidation accounts by 30 September 2021, a sum of Rs 1.35 million prepayment and advances and a sum of Rs 1.14 million deposits had been shown under the current assets and current liabilities respectively in the financial statements without being settled.

This amount represents the funds received from various parties as other income. This total amount has been transferred to Secretary Ministry of highways Account.

All the liabilities and receivables should be settled before closing of the Project.

2.2 Non-Compliance with Rules and Regulations

Reference to the Rules and Regulations

Non-Compliance

Management Response

Auditor's Recommendation

Financial Regulations 134(3) and Management Audit Circular No.5 of 26 July 2010.

The transactions of the Project had not been subjected to audit of Internal Audit Section of the Road Development Authority.

When we inquired regarding this issue from the Internal Audit Division of the RDA, They informed us That They come under the direction of Chairman RDA and hence they can audit the PMU'S only if a directive is given by Chairman RDA.

The transaction of the Project should be audited by the Internal Audit Section of the Road Development Authority

3. Physical Performance

3.1 Progress of the activities carried out by the Project

According to the information received, the rehabilitation works of 170 kilometers of sections of 06 national roads in Northern and North Central Province awarded under 10 packages including 03 years performance based maintenance works of 03 rehabilitated national roads had been completed as at 31 December 2015. Further, the contracts for rehabilitation of other 02 national roads awarded in 2015 and completed in year 2016, by utilizing the savings on rehabilitation of roads under the initial Implementing Plan. In addition, the rehabilitation works of 121.98 kilometers of other sections of 07 national roads in Northern and North Central Provinces awarded under the additional financing arrangements had been completed as at 31 December 2016. Out of the savings of the Loans, a new contract had been awarded on 28 April 2017 to rehabilitate A 009 Kandy Jaffna road section from Rambewa to of 9.64 kilometers had been completed as at 31 October 2018. Further, Project had obtained the approval from of Cabinet of Ministers and Asian Development bank to rehabilitate Madawachchiya-Horowpathana road awarded two contracts thereon. However, rehabilitation works had been completed in year 2020.

3.2 Contract Administration

Audit Issue

Rs. 11,609.72 million had been spent for 12 national road contracts in the North and North Central Province as at the end the year 2021 by the project. According to the Paragraph 8.13.4 of the procurement guidelines, the efforts should be made to minimize the project variance costs. However by that amount Rs. 480.7 million had been paid as variations, out of that Rs. 47.62 million had paid for construction of buildings and Rs. 3.08 million had also been paid for the purchase of vehicles not related to construction of road.

Response of the Management

It is noted those vehicles were purchased under Provisional Sums available in the Contract. However, the variations were initiated due to exceed of the available sum within the contract. Vehicles were provided only for the contract supervision and monitoring. At the end of the contracts, all vehicles were handed over to RDA.

**Auditor's
ecommendation**

The needs of the Project is required to be identified at the initial stage of the Project