

## **Rehabilitation and Improvement of Colombo National Highways Project - 2018**

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The audit of the financial statements of the Rehabilitation and Improvement of Colombo National Highways 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.15111 PB dated 10 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the OPEC Fund for International Development. 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 the Ministry of Ports, Shipping and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project was to upgrade of 65.45 kilometres of 13 key national roads in Colombo suburbs and reconstructing of Narahenpita - Nugegoda Bridge. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 94.99 million equivalent to Rs.12,347.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017. However, the date of completion of the activities of the Project had been extended up to 31 December 2020.

### **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 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.

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 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. Physical Performance**

### **2.1 Physical Progress of the Activities of the Project**

The scope of works of the Project consisted with rehabilitation and improvement of 63.72 kilometres of national roads in Colombo district and the bridge No.2/1 of Narahenpita – Nugegoda road implemented under 07 contract packages. Eventhough activities of the Project commenced on 11 December 2013 and scheduled to be completed by 31 December 2017, the rehabilitation works of 12.77 kilometres of 05 national roads and improvement of the Bridge had been completed as at 31 December 2018. The following observations are made.

| Audit Issue   | Impact   | Response of the Management   | Auditor's Recommendations  |
|---|--|--|--|
| (a) The physical progress of the rehabilitation works of Kottawa – Thalagala Road, Kotte- Bope Road and Orugodawatta – Ambatale Road had remained below than 45 per cent as at 31 December 2018.  | Possibility to increase the cost of the contracts, due to time taken to complete the rehabilitation works. | The progress of Kottawa – Thalagala and Kotte – Bope Road are far behind the schedule mainly, due to delay on land acquisition. The progress of Orugodawatta – Ambatale Road was behind the schedule, due to delays of the contractor, utility shifting and land acquisitions. | The scope of road rehabilitation works of the Project was need to be planned to complete it on targeted dates. |
| (b) The contract for the rehabilitation works of Orugodawatta – Ambathale Road had been awarded at a cost of Rs. 1,528 million on 01 July 2017 and extended the period of contract for 175 days despite the slow progress of rehabilitation works executed by the contractor. However, the contract agreement had been terminated by the Project with effect from 18 October 2018 without considering possibilities to impose the penalties against the contractor. | Possibility to increase the cost of the contracts.   | A new contract on rehabilitation works of Orugodawatta- Ambatale Road was awarded on 01 October 2019. There was no sufficient allocation in the loan to improve Navinna – Boralesgamuwa Road.  | Need to be taken action to minimize the additional costs.  |
| (c) The rehabilitation works of 19.20 kilometres of other roads had not been commenced even as at 30 November 2019, due to delays in acquisition lands whilst the cancellation of rehabilitation works of 2.41 kilometres of Navinna – Boralesgamuwa Road from the scope of works of the Project.   | -Do -  | The rehabilitation works of Piliyanadala–Maharagama Road and Walgama – Diyagamaare Road were not commenced, due to delays in land acquisitions.  | -Do -  |

## 2.2 Underutilization of Financial Resources

| Audit Issue  | Impact   | Response of the Management | Auditor's Recommendation   |
|--|--|----------------------------|--|
| According to the Loan Agreement, an allocation of US\$ 50 million equivalent to Rs.6,499.57 million had been made and out of that only US\$ 19.81 million equivalent to Rs. 3,005.22 million representing 39.62 per cent had been utilized as at 31 December 2018. The period of the Loan scheduled to be expired on 31 December 2017 had been extended up to 31 December 2020, due to slow physical progress on works and fund utilization. | Possibility to incur additional costs on commitment charges. | Agreed.                    | The financing plan need to be strictly monitor to utilize the allocations before expiration of the period of the Loan. |

## 2.3 Issues on Land Acquisitions

| Audit Issue   | Impact   | Response of the Management  | Auditor's Recommendation  |
|---|--|---|---|
| According the information received, it was scheduled to be acquired 5,341 plots of land including 1,153 plots of crown lands. Out of that the compensation amounting to Rs.3,210 million had been paid for 1,454 plots of land under the Section 17 of the Land Acquisition Act as at 31 December 2018. However, only 04 plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2018. Further, the interest amounting to Rs.75.72 million had been paid during the year under review, due to delays in settling of compensations. | Possibility to incur extra costs on interest on settlement compensation. | Action will be taken to register the balance plots after paying interest. | Land acquisition activities should be properly planned and perform to complete on targeted dates. |

## 2.4 Human Resources Management

| Audit Issue  | Impact  | Response of the Management | Auditor's Recommendation  |
|--|---|----------------------------|---|
| The approved cadre of the Project consisted with 24 posts and key managerial positions such as Project Secretary, Deputy Project Director, Resettlement Officer and Transport System Analyst had remained vacant for over 02 years as at 31 December 2018. | Performance of the Project activities will be adversely affected. | No comments received.      | Required staffs with necessary qualifications and skills need to be recruited to implement the functions of the Project in smooth manner. |