

Construction Project of flyovers at Rajagiriya, Polgahawela and Ganemulla - 2018

The audit of financial statements of the Construction Project of flyovers at Rajagiriya, Polgahawela and Ganemulla 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 Article 01 of the Loan Agreement No. SLR-14809 dated 14 December 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Spanish Government and Binco Bilbao Vizcayaargentaria, S.A of Spain. My comments and observations 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, the Ministry of Highways, Ports and Shipping, presently Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to design, supply and construction of the flyovers at Polgahawela, Rajagiriya and Ganemulla to provide smooth mobility facility and savings of economic and social cost associated with traffic congestion and improve the socio economic status of the country. As per the Loan Agreement, the estimated total cost of the Project was US\$ 55.78 million equivalent to Rs. 9,762 million and out of that US\$ 50.64 million equivalent to Rs. 8,862 million was agreed to be financed by the Government of Spain and Banco Bilbao Vizcayaargentaria, S.A of Spain. The balance amount of Rs. 900 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 19 April 2016 and scheduled to be completed by 31 December 2018. However, the date of completion of the activities of the Project had been extended up to 30 June 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.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The contract for the design, supply and construction of the flyovers at Polagahawela, Rajagiriya and Ganemulla had been awarded to a foreign construction company under turnkey basis at an estimated cost of Euro 53.71 million. The respective construction works had been commenced on 19 April 2016 and scheduled to be completed within 32 months. The flyovers had been declared open for traffic in January 2018, prior to 11 months of the

scheduled date of the completion. According to the feasibility report of the Project, it was calculated that 47.50 per cent of Economic Internal Rate of Return, 14.98 per cent of Benefit Cost Ratio and Rs. 17,737 million of Net Percent Value expected in construction of Rajagiriya flyover. However, the Post Impact Evaluation Report prepared by the contractor had indicated that 43.30 per cent of Economic Internal Rate of Return, 8 per cent of Benefit Cost Ratio and Rs. 10,163 million of Net Percent Value was only achieved at the time of completion of the construction works of the flyover. Thus, it proved that respective perspectives related social benefits on construction of the flyover had been declined remarkably after the construction works completed.

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
It was observed that reconstruction works of railway rest room at Polgahawela had not been identified as a part of the contract at the initial stages and awarded a separate contract thereon to other contractor at an estimated cost of Rs. 23.40 million.	Additional costs incurred by the Government of Sri Lanka.	No comments received.	Attention need to be made to carry out of pre surveys on works to be attended and avoid unexpected additional costs.

3.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Eventhough the activities of the Project had been completed in January 2018, the operations of the Project Monitoring Unit had been continued up to 31 December 2018, due to delays in transferring of the assets and liabilities of the Project to the Road Development Authority and delays completion of the process of land acquisition.	Possibility on extending of the time to wind up the operations of the Project.	No comments received.	Action need to be taken to wind up the operations of the Project.