

## **OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project 2019**

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The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project 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 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 Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project was to upgrading 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 balance amount of US\$ 44.99 million equivalent to Rs.5847.80 million expected to be financed by the Government of Sri Lanka. 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 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 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 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 Project's internal control.
- 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

	<b>Accounting Deficiencies</b> -----	<b>Impacts</b> -----	<b>Management Responses</b> -----	<b>Auditor's Recommendations</b> -----
(a)	Eventhough a sum of Rs.799.91 million had been disbursed to the Project by the OPEC fund for the year 2019, only a sum of Rs. 285.57 million had been accounted as Loan and the balance amount of Rs. 514.34 million had been erroneously accounted as disbursable foreign aid.	Total loan amount representing in the balance sheet as at 31 December 2019 was understatedby Rs.514.34 million.	Total disbursement for the project for year 2019 was Rs.799,914,345.23 but Department of State Accounts has only been accounted Rs.285,575,146.53 for the year. Therefore, in the Statement of Financial Position, Project has accounted Rs.285,575,146.53 as the disbursed loan amount and the balance amount of Rs.514,339,198.70 has been accounted as foreign aid receivable for year 2019.	The Project needs to maintain proper records to represent the total disbursement and loan amount in the financial statement correctly.
(b)	Interim payment of Rs.60 million to be paid relating to Interim Payment Certificate Nos. 09, 32 and 35 respectively for the Orugodawatta-Ambatale Road Kottawa - Thalagala Road and Kotte – Bope Road for the period from June to December had not been brought to in the financial statements as at 31 December 2019.	Work-In-Progress and current liability account had been understated.	The referred Interim Payment Certificates for Orugodawatta – Ambatale Road, Kottawa –Thalagala Road and Kotte – Bope were received to PMU after the preparation of the Financial Statements. Therefore, above ICP's were accounted in year 2020.	Correct accounting policies needs to be applied to show the correct statement of financial position as at reporting date.

- (c) Interest Payable Rs.569 million approximately related to delay in settlement of statutory compensation of Rs. 2,242 million for the Kotte - Thalagala Road, Kotte – Bope Road, WalgamaDiyagama Road and Maharagama-Piliyandala Road had not been brought to the financial statement as at 31 December 2019. Understatement of compensation amount. of It is noted accrue the interest for the payables compensation paid in the Financial Statement in year 2020. Accounting Standard needs to be applied correctly to confirm the accuracy of financial statement.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

No	Component	As at 31 December 2019		Audit Issues	Impacts	Management Responses	Auditor's Recommendations
		Expected physical performance	Performance achieved				
(a)	Kottawa – Thalagala Road.	85.6%	54.53%	Actual progress was par behind the planed progress.	Possibility to complete the works with delays and increase the cost of the Project.	- Agreed- It has been granted 175 days' time extension to contract due to NWS&DB pipe laying delay and also land acquisition delay.	Action need to be taken to expedite the road construction activities to complete them on targeted dates.
(b)	Kotte- Bope Road	70.12%	98.3%				
(c)	Orugodawatta - Ambatale Road.	100%	28.76%				
(b)	Construction works of 17.47 Km of other 4 roads.	Expected to commence in 2019.	Zero.	Works had not been commenced.	-Do-		- Do -

### 3.2 Contract Administration

No	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Out of allocation of US\$ 50 million equivalents to Rs. 6,499.57 million, only US\$ 23.83 million equivalents to Rs. 3,301 million representing 50.79 per cent had been utilized as at 31 December 2019. 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 unutilized total loan facilities before expiration of loan facility.	Agreed	The financing plan needs to be strictly monitored to utilize the allocation before expiration of the period of the Loan.
(b)	According to the information received, the Project had incurred Rs. 18.7 million to remove 2,850 trees from the main alignment of the Kottawa – Thalagala Road, Kotte- Bope Road and Orugodawatta – Ambatale Road. However, the Project had carried out only 3 programs for replanting of 254 new trees in 3 locations.	Damage to the Environments	Acquired lands are merely sufficient for road construction and only few locations are left for tree planting.	Action needs to be taken to carry out valuable programs for replanting trees to rectify the damage to the Environments.

### 3.3 Issues on Land Acquisition

No	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	According to the information received, it was scheduled to acquire 5,599 plots of lands. Out of that the compensation amounting to Rs. 4,695 million had been paid for 2,295 plots of land under the Section 17 of the Land Acquisition Act as at 31 December 2019. However, only 05 plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2019. Further, the interest amounting to Rs.25 million had been paid during the year under review, due to delay in settling of compensations and a sum of Rs. 1,379 million compensation vouchers were in the hand of the Project, due to inadequate funds.	Possibility to incur extra costs on interest on settlement of compensation.	Agreed It has been not allocated sufficient amount of imprest to settle compensation payment of land acquisition.	Land acquisition activities should be properly planned and perform to complete targeted dates.
(b)	Although the construction works of the Kottawa – Thalagala Road had commenced on 20 February 2017 for the construction of 14.48 km road length, 5.44 km road length had not been handed over to the contractor even as at 31 August 2020, due to delay in land acquisition activities. Further, prolongation cost amounting to Rs.56 million had been claimed by the contractor for the Kotte - Bope Road, due to delays in land acquisition.	Possible to increase the cost of the Project.	Agreed	Action should be taken to accelerate the land acquisition activities to reduce the extra cost of the Project.