

Port Access Elevated Highway Project - 2019

The audit of the financial statements of the Port Access Elevated Highway 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 Section 2.09 of Article II of the Loan Agreement No.3716-SRI dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which 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 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 have a positive impact on economic activities and regional integration benefits envisaged are inter-alia the ease of traffic congestion in the city of Colombo, reduction of travel time from Colombo to the Katunayake International Airport and ease of traffic congestion of logistic transport from the harbor to other regions of Colombo. The traffic congestion in the suburbs of Colombo too is also expected to ease due to the reduction expected in the movement of containers in roads of Colombo. As per the Cabinet Memorandum dated 16 February 2016, the estimated total cost of the Project was Rs. 360.2 million. The Project commenced its activities on February 2016 and the approval of the Cabinet of Ministers for the implementation of the Project was received in March 2016. The Project is scheduled to be completed in 2025.

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 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 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

The following observations are made.

	Accounting Deficiency	Impact	Responses of the Management	Auditor's Recommendations
(a)	The Port Access Elevated Highway Project was operating in the same building with other three Projects. However, the overhead cost such as Electricity, Telephone, Water, Office Rent, Cleaning Services and Security Charges had not been absorbed in to the Project account. As a result, the total cost of the Project was understated by unallocated portion of overhead.	The total Project cost had been understated by unallocated amount.	Although the correct method is allocating general expenses among the projects, we have faced difficulties when applying same practice.	Correct method should be followed to allocate overhead cost among the Projects.
(b)	The commitment and Interest charges aggregating Rs.58.49 million had been accounted in the financial statements for the year 2019 without disclosing separately.	Accuracy of the amount could not be vouched.	Not commented	Action should be taken to disclose commitment and interest charges separately in the financial statements.

3. Physical Performance

3.1 Delays in commencing / Implementation of activities of the Project

No	Activity	Scheduled date of commenced	Date of commenced	Delay	Impact	Response of the Management	Auditor's Recommendations
(a)	Construction of PAEH	December 2018	27 September 2019	8 Months	Delay in completion of the Project and possible overrunning of the cost of contract.	Delays in commencement of activities of the Project was accepted.	Action should be taken to accelerate the activities of the Project.
(b)	Construction of Maritime Facilitation Centre	October 2019	Not started up to date	3Months	-Do-	-Do-	-Do-
(c)	Piling works for Maritime Facilitation Centre	December 2018	June 2019	7 Months	-Do-	-Do-	-Do-
(d)	Procurement of contractor for the Electronic toll systems	June 2019	Not awarded up to date	7 Months	-Do-	-Do-	-Do-

Details included as per Procumbent Plan 2019 of PAEHP

3.2 Contract Administration

The following observations are made.

No	Audit Issue	Impact	Responses of the Management	Auditor's Recommendations
(a)	The approval of the Cabinet of Ministers for the implementation of the Port Access Elevated Highway Project was received in March 2016 and the Loan Agreement was signed on January 2019. However, 13 activities valued at Rs.37,360 million included in the Procurement Plan of the year 2019 had been delayed nearly by 8 months at the beginning as per the progress report for the year 2019. Accordingly, both the construction of Port Access Elevated Highway and construction supervision had been reported 3 per cent progress against 8 per cent target. The Design of Building and Construction supervision of Port Building and construction of piling works of the Maritime Facilitation Center had been reported 70 per cent and 84 per cent progress respectively against the 100 per cent target.	Possible overrunning of the cost of contract.	Agreed. The Conceptual approval for Port Access Elevated Highway Project was obtained from the Cabinet of Ministers in March 2016. There were many ambiguities in selecting proper alignment and establishing pier locations in order to avoid any disruption to the Port operation. Also, many utility services use this corridor. Therefore, finalization of alignment and pier location has taken more than 13 months against the planned 6 months.	Action should be taken by the Project to accelerate the activities of the Project to complete them on target date.
(b)	Construction of piling works of the Maritime Facilitation Center workshop had been awarded to a construction company at a cost of Rs.624 million over the Engineering Estimate of Rs.126.5 million. However, reasons to increase 25.43 per cent over Engineering estimate of Rs.497.5 million had not been disclosed to the audit.	Additional costs incurred.	In the competitive bidding process, the lowest evaluated bidder was selected as successful bidder. The bid price of the successful bidder was 25 per cent more than the Engineer's estimate. This was evaluated in an	Need to be investigate the reasons effects for the large differences.

acceptable comparison method. The construction activity items were compared with rate from Engineer's estimate and average of other bidders to ascertain any abnormally high rate or excessive rate above the market rates. Most of the rates are below the average rates. Therefore, the rates were accepted.

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| <p>(c) Eventhough the payments under foreign funded projects are exempted from Value Added Tax, Implementing Agency had reimbursed Rs.332.48 million local taxes to the contractors and consultants without obtained the tax exemption in time for the year under review</p> | <p>The Project cost would be increased unnecessarily.</p> | <p>The first installment of mobilization advance was paid before obtaining the VAT exemption. The Project was exempted from VAT since 06 December 2020.</p> | <p>Early action should be taken to get the exemption for local taxes.</p> |
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3.3 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>The budgetary allocation amounting to Rs.6,500.8 million and 550 million had been provided by the General treasury in 2019 for the utilization of foreign loan and GOSL expenditure respectively. However, out of the total allocation an amounting to Rs.4,406.25 million of foreign loan and an amounting to Rs.39.76 million of GOSL had been utilized at the end of the year 2019. Accordingly, the loan allocation amounting</p>	<p>Possible delays in construction activities of the Project.</p>	<p>It was planned to commence the PAEH civil works from June 2019 and intended to reserve adequate fund for mobilization advance to the Consultant and Contractor. Further, monthly contract payment is also expected for next five months within the year 2019. Therefore, received Rs.6,500 million would be adequate. The award of contract was delayed and the amount of Rs.2,182 million was unspent</p>	<p>Achievable targets should be decided by considering the action plan and the allocation should be requested accordingly.</p>

to Rs.2,094.55 million and the GOSL allocation amounting to Rs.510.24 million representing 32 per cent and 93 per cent respectively had not been utilized by the Project during the year under review due to slow progress of the activities of the Project.

unexpectedly. Although, the allocation was made for GOSL portion Rs.550 million, Imprest was released only Rs.40 million. Outstanding payment under GOSL was Rs.332.48 million.

3.4 Payments Made out of Project Objectives

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Advertisements charges Rs.2.17 million spent by the Project to advertise the inauguration ceremony of the Port Access Elevated Highway Project in 07 local newspapers.	Cost of the Project will be increased.	The inauguration ceremony was held on 10 September 2019 with the participation of Hon. Prime Minister and Hon. Minister of Highways and Road Development and Petroleum Resources Development and others. Activities in this regard including supplementary on newspapers.	Action should be taken to utilize funds by the Project for the objectives of the Project.

3.5 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Eventhough the Department of Management Service of the General Treasury had approved 30 cadre position, an action had not been taken to fill the 25 vacancies for the key posts such as 01 Deputy Project Director, 02 Chief Engineers, 05 Project Engineers, 03 Senior Engineers, 01 Project Accountant and 01 Project Secretary etc. at the end of the year under review.	Possible delays in commencement of the designing and construction of the Highway.	Staff available with NRCP was utilized for the PAEH Project. Therefore, a Senior Engineer, a Project Engineer, Project Secretary from NRCP were engaged. Project Accountant, NRCP was appointed on Acting basis to serve for PAEH. A Senior Engineer and A Project Engineer from Sri Lanka Ports Authority were already appointed. Action will be taken to recruit the rest of the staff near future.	Action should be taken to recruit staff according to the requirement of the Project.