

## **Southern Road Connectivity Project - 2020**

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The audit of financial statements of the Southern Road Connectivity Project for the year ended 31 December 2020 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 ii Section 2.09 of the Loan Agreement No.3027- SRI dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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, the Ministry of Ports 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 is to improve National transport efficiency by upgrading and rehabilitating 33 km of the roads linked to the Southern Highway. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 95 million equivalent to Rs.12,248 million and out of that US\$ 70 million equivalent to Rs.9,025 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 25 million equivalent to Rs.3,223 million agreed to be finance by the GOSL. The Project commenced its activities on 27 May 2014 and scheduled to be completed by 30 December 2018. However, the date of completion of the activities of the Project had been extended up to 31 December 2021.

### **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 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified 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 Deficiency

Accounting Deficiency -----	Amount ----- Rs. million	Management Response -----	Auditor's Recommendation -----
The revaluation gain amounting to Rs.13.22 million which is arisen from the Central Bank Special (Dollar) Account as at 31 December 2020 had been erroneously credited to the work in Progress account contrary to provision in the Public Sector Accounting Standard No.05.	13.22	This revaluation surplus will be identified under the net assets in 2021.	Action should be taken to follow Sri Lanka Public Sector Accounting Standard No.05.

### 2.2 Non- compliance with Rules and Regulations

No	Reference to the Rules and Regulations -----	Non- Compliance -----	Management Responses -----	Auditor's Recommendations -----
(a)	Section 4.3.1 of the Procurement Guidelines and the Finance Circular No. 2/2002 dated 07 August 2012.	According to the Guidelines and the Circular, the total cost estimate of the relevant contract should be prepared in accuracy manner and assigned to the Contractor. However, 193 work items in the Contract Package 2 valued at Rs.826 million were not fully attended and 68 work items valued at Rs. 168 million were partially attended by the contractor. As a result, mobilization advance amounting to Rs. 149 million had been overpaid for non-attended works.	The scope of work defined at the bidding stage has been changed during the construction stage due to new requirement. This is the reason for total cost estimate differed from the final contract price.	Need to conduct detailed Engineering studies and identify the correct scope of works before preparation of Bill of Quantities.
(b)	Section 8.13.4 of the Government Procurement	The total cost of the Contract Package -02 was Rs.3,064 million and out that amounting to	Necessary approval required as per the section 8.13.4 of the	Action should be taken to follow the Procurement

Guidelines 2006. Rs.510 million representing 20 per cent had been provided as contingency provision for subsequent changes. However, the Project had made variations aggregating to Rs.1,573 million representing 51 per cent of the total cost of the contract due to subsequent scope changes in the construction without obtaining the approval required as per the Section 8.13.4 of the Government Procurement Guidelines 2006.

Government Procurement Guidelines 2006 has been taken to make the above payment.

Guidelines and get the required approvals from the relevant authorities before payment release.

### 3. Physical Performance

#### 3.1 Physical Progress of the Activities of the Project

Component -----	As at 31 December 2020 -----		Audit Issue -----	Reasons for delays -----
	Expected physical performance -----	Performance achieved -----		
	Percentage	Percentage		
(a) Ambatale – CINEC Junction Road	100%	99%	Contract had been delayed by 483 days.	COVID -19 pandemic situations
(b) Selected road section from Kirulapana to Godagama and Pamankada to Pokunuwita.				
- As per Original Program	68%	21%	Actual progress of the Project activities were behind the targeted progress	COVID -19 pandemic situations
- As per revised Program	44%	44%		

#### Response of the Management

Action has been taken to expedite the progress of utility shifting. Working days were deducted remarkably due to COVID -19 pandemic situations and this led to less progress.

#### Auditor's Recommendation

Action need to be taken to expedite to complete the works on targeted dates.

### 3.2 Contract Administration

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendations</b> -----
The Contractor final Payment Certificate amounting Rs.248.6 million had not been settled by the Project and had remained as outstanding liability for about 1 ½ years even as at 31 December 2020 due to delay in approval from the Lending Agency for the additional cost of the contract. The delay in settlement of contractor payments will be affected to increase the cost to the Project.	The Engineer has certified and forwarded IPC 29 with the amount of Rs.2,279,809,993.98 for Contract Package 03. Necessary action to make the payment of Rs.248,604,443.25 is being taken.	Action need to be taken to settle the contractor's liability as per contract agreement without being delay to mitigate the interest cost.

### 3.3 Issues Relating to the Land Acquisition

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
According to the information made available, it was scheduled to acquire 3,558 plots of land including 548 plots of land owned to the Government. A sum Rs.9,500 million had been incurred by the Project for the Land Acquisition cost as at 31 December 2020 and out of that, Rs.5,243 million had been made thereon under the decisions of the Land Acquisition and Resettlement Committees. In addition, a sum of Rs.289 million had been paid as interest on delays in settlement of compensation up to 31 December 2020. However, no any plot of land had been registered under Section 44 of the Land Acquisition Act.	Payment for land compensation process is in progress for the remaining plots of lands based on the availability of fund. Due interest payment for the acquired lands has to be fully settled before register under Sec 44 of Land Acquisition Act.	Action need to be taken to accelerate the land acquisition activities and transfer the ownership of the lands to the Road Development Authority.