

OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project - 2020

The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways 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. 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 km 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 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of this 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiencies	Amount Rs. million	Management Responses	Auditor's Recommendations
(a)	The difference at the end of the year under review, in between the loan balance in financial	248	The balance amount of Rs. 247,901,338.53 has been accounted as foreign aid	Action should be taken to record the actual disbursements

statements of the project and the External Resources Department reports had not been reconciled.

receivable for year 2020.

to reflect the correct loan balance as at end of the accounting period

(b) Interest for the delay in payment of statutory compensation to the land owners as at 31 December 2020 had not been accounted in the financial statements of the Project. 185

It had been accounted Rs. 34,613,956.13 for Piliyandala-Maharaga Road and Rs. 13,451,417.35 for Walgama-Diyagama Road as Interest provision in Journal Voucher No. 80.

Action need to be taken to record interest payable amount for the delay in settlement of compensation as at end of the accounting period correctly.

(c) Provision related to 4 interim certificates of the contractors for the month of December 2020 had been understated in the financial statements of the Project for the year under review. 11.63

The referred Interim Payment Certificates for December 2020 were received to PMU after the preparation of the Financial Statements. Therefore, a provision of Rs. 84.0 million had been made for the above IPCs.

Action need to be taken to comply with Sri Lanka Public Sector Accounting Standard No.08.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component	As at 31 December 2020		Audit Issue	Reason for delay
	Expected physical performance	Performance achieved		
	percentage	percentage		
Kottawa-Thalagala Road	100%	70%	Progress of the road constructions were behind the targets. This affected the Project and increase the cost of the Project.	Project is delayed due to land acquisition issues and contractors poor performance.
Kotte – Bope Road	100%	99%		
Orugodawatta – Ambathale Road (Stage-1)	100%	48%		
Orugodawatta – Ambathale Road (Stage-1)	61%	38%		
Response of the Management Auditor's Recommendation	Agreed			
	Action need to be taken to expedite the construction activities to complete the works on targeted dates.			

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The Rehabilitation work on the first phase of the Orugodawatta-Ambatale road had been commenced on 1 July 2017 and extension of 478 days had been given to the contractor without charging the delay charges, further, it was observed that compensation amounting to Rs. 17.41 million for 175 days of extension had been approved without considering the performance of the contractor.	Agreed.	Action need to be taken to evaluate the contractor performance timely manner in order to deduct delay damages as per the condition of contract agreement.
(b)	According to the project information, the contract period was extended by 550 days and 661 days due to delays in the construction of Kottawa - Thalagala Road and Kotte - Bope Road. 59.25 million and Rs. 72.18 million had been approved for the compensation on delayed period.	Agreed	The constructions works need to plan properly to reduce un necessarily cost of the contract
(c)	The validity period of the insurance policies was expired on 31 December 2020. However, action had not been taken by the contractor to extend the validity period of the insurance policies to safeguard the risks occur during the construction period. Further, it was observed that 34 public complaints had been remained unsolved as at 31 December 2020.	Agreed	Action needed to be taken to complete all complaints of the public before completion of civil works of the Project.

3.3 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According the information received, it was scheduled to be acquired 5,493 plots of land including 911 plots of crown land. The compensation amounting to Rs.9,656 million including interest Rs.1,175 million due to delays in	The provided details are correct except details of number of lands to be acquired.	Action need to be taken to accelerate the land acquisition activities and register the lands under section 44 of the land

settlement of compensations had been incurred by the Project for the Land Acquisition activities as at 31 December 2020. However, only 05 plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2020. Further, and a sum of Rs.1,178 million compensation vouchers were in hand of the Project due inadequate funding facilities of the Project.

acquisition Act.