

OPEC Funded Western Province Road Development Project -2020

The audit of the financial statements of the OPEC Funded Western Province Road Development 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 Highways and Investment Promotions, presently the Ministry of Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is the upgrading, improvement and widening of 27 Km of pre- selected national highways in the Western Province of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be provided by the OPEC Fund for International Development. The Project had commenced its construction activities on 05 October 2017 and scheduled to be completed by 28 June 2019. The activities of the Project had extended up to 30 September 2021.

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 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 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)	According to the Department of External Resources, the loan account at the end of the year 2020 was Rs. 437 million but the project	164	The balance amount of Rs.163,659,874.71 has been accounted as disburseable foreign aid	Action should be taken to record the actual disbursements to reflect the correct

	had shown it as Rs. 273 million therefore the loan balance was understated in the loan account.		for year 2020.	loan balance as at end of the accounting period.
(b)	The mobilization advance had been over paid to the contractor by the project due to eliminating the rehabilitation works of Walgama-Athurugiriya road from the scope of works of the contract package -1.	13	Agreed. The advance payment was inadvertently calculated based on summery sheet of Bill of quantities which includes B.O.Q. of both roads.	The scope of works of the Project need to identify correctly at the beginning of the Project
(c)	The provision relating to interim payment certificates for the month of November and December 2020 of the contract package -1 had been under understated in the financial statement of the Project for the year 2020.	2 1.78	Month of December bill only a provision of Rs.5.0 million had been made since the bill received after preparation of financial Statements. The balance amount is accounted in year 2021.	The provision need to be made according to the Sri Lanka Public Sector Accounting Standard No.08.
(d)	Interest for the delay in statutory compensation of Rs.0.89 million to land owners under section 17 had not been accounted in the financial statement of the project as at 31 December 2020.	0.28	Month of December bill only a provision of Rs.5.0 million had been made since the bill received after preparation of financial Statements. The balance amount is accounted in year 2021.	All liabilities of the Project need to record correctly.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component	As at 31 December 2020		Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
Contract Package- 1 Kaduwela – Athurugiriya Road.	78%	52%	Progress of the road constructions works were behind the targets. This affected to delay the Project and increase the cost of the Project.	Project is delayed due to land acquisition issues and contractors poor performance.
Contract Package- 2 Vadduwa- Moronthuduwa Road, Bellana- Moragala	100%	100%		
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 Delays in Commencements of Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
Although the Loan Agreement was signed on 26 June 2015, the rehabilitation works of 02 roads under contract package -I had been commenced on 29 January 2018 after lapsed of 2 ½ years whilst commencement of rehabilitation works of other 02 roads under contract package-II on 05 October 2017 with delays of 2 years and 3 month due to time taken to acquisition of lands. However, the rehabilitation works 1.25 km of Walgama- Athurugiriya road under contract package -I has been subsequently deleted from the scope of works of the Project due to shortage of funds.	Agreed. The commencement of the projects has been deliberately postponed until the land acquisition progress reached to the reasonable level. The walgama - Athurugiriya Road section has been deleted due to the poor progress of the acquisition and the shortage of loan allocation for the civil contracts	Land acquisition of the Project need to be completed before awarding the contract and loan should be commenced and be affective when awarding the contract.

3.3 Issues Relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available, 2,687 plots of land including 489 plots of crown land in the area under the purview of Divisional Secretariats of Kaduwela, Palindanuwara, Agalawatta, Walallawita, Panadura and Kalutara had been acquired by the Project for the road construction purposes and compensation amounting to Rs.1,600 million including interest Rs.286 million due to delays in settlement of compensations had been paid thereon for 1716 plots of land as at 31 December 2020. However, only 22 plots of land had been registered under Section 44 of the Land Acquisition Act.	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 acquisition Act.