

National Highways Sector Project (Additional Financing) - 2020

The audit of the financial statements of the National Highways Sector Project (Additional Financing) 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 Section 2.09 of Article II of the Loan Agreement No. 2767 SRI dated 14 December 2011 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, then Ministry of Ports and Highways presently, the Ministry of Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the national transport efficiency by upgrading rehabilitation and realignment of about 62 km of National Highways. As per the Loan Agreement, the estimated total cost of the Project was US\$ 105.60 million equivalent to Rs.13,728 million and out of that US\$ 85 million equivalent to Rs.11,050 million was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 14 December 2011 and scheduled to be completed by 31 December 2015 and extended up to 31 December 2017. However, the Project continues its operations even up to 31 December 2020.

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 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 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. Physical Performance

2.1 Physical and Financial Progress of the Activities of the Project

According to the Project Implementation Plan, it was scheduled to upgrade and rehabilitate of 60 Km of 02 national roads directly linked to the Southern Expressway from Hikkaduwa and Aluthgama and other 04 national roads of Matara – Godagama Road, Katukurunda–NagodaRoad, Kirulapona- Godagama Road and Pamankada –Kesbewa Road. However, the rehabilitation works of 58.96 km of such roads had been completed even as at 31 December 2016. It was observed that the rehabilitation and improvement works of Matara-Godagama Road had been completed as targeted while other roads had been completed with delays ranging from 172 days to 338 days, due to delay in land acquisition activities of the Project.

2.2 Extraneous Transaction

Audit Issue	Response of the Management	Auditor's Recommendation
Although the Project had spent a sum of Rs.18.33 million for acquisition of lands for rehabilitation of 17.60 Km of Galle-Baddegama Road in the Southern Province, the rehabilitation works of the respective section of the road had not been carried out, due to lack of financial arrangements thereon.	Loan amount was insufficient to complete all seven contract packages (CP 1- CP 7). Therefore, Galle – Baddegama Road construction could not be carried out under this loan.	Need to adhere with the scope of works of the Project.

2.3 Issues on Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available, it was scheduled to acquire 7,632 plots of land including 1,362 plots of crown land and out of that compensation amounting to Rs.7,158 million including interest on delays in settlement of compensation had been paid for 5,741 plots of lands as at 31 December 2020. However, Project had not completed the acquisition process of any plots of land even as at 31 December 2020 under Section 44 of the Land Acquisition and Settlement Act, No. 13 of 1986. Further, it was observed that, the balance land acquisition activities of the Project had been transferred to the Road Development Authority without making cost estimate.	We have already started the process of issuing of section 44 and it will be done for lost that payment done up to interest payment. The balance land activities transferred to RDA and cost estimate for the same is being prepared. The above cost estimate will be submitted before end of November 2021.	The attention on acquisition of lands is needed urgently.

2.4 Under Utilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
Allocation of US\$ 6.12 million equivalent to Rs.923 million representing 7.20 per cent of the total allocation made by the Lending Agency could not be utilized by the end of the period of the Project, due to slow progress on civil construction works and refunded to the Lending Agency on 11 September 2017 without being utilized for the intended purposes.	Loan amount was insufficient to complete all seven contract packages (CP 1- CP 7).	Need to plan the construction works properly to complete them within the period of Project.