

## **Design and Construction of Kohuwala and Gatambe Flyovers Project - 2022**

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The audit of the financial statements of the Design and Construction of Kohuwala and Gatambe Flyovers Project for the year ended 31 December 2022 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, then the Ministry of Highways, presently the ministry of Transport and Highways is the Executing Agency, and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are the Designing and Construction of flyovers planned to be located where Kohuwala in the Colombo district and Gatambe in the Kandy district. The activities of the Project are implemented under 02 sites namely the kohuwala flyover and the Gatambe flyover. As per the Loan Agreement, the estimated total cost of the Project was EURO 54.974 million equivalent to Rs. 11,167 million and out of that EURO 52 million equivalent to Rs.10,192 million was agreed to be financed by the Hungarian Export-Import Bank. The balance amount of Rs.975 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 2021 August 16 and scheduled to be completed by 15 February 2024.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 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 scepticism 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**

<b>No</b>	<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. Million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	As per the Section 43(a) of Sri Lanka public Sector Accounting Standard 5 assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments amounting to Rs. 2,044 million relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.	2,044	The Exchange rate difference amounting Rs.172.65 million had been recorded according to the Report of Department of State Accounts and ERD statement.	Adhere to the Sri Lanka Public Sector Accounting Standard.

- (b) Seven projects had been implemented under the Miscellaneous Foreign Funded Projects building including this project. However, a policy had not been established to distribute the general overheads among the projects. Hence, the project had paid Rs.4 million out of total building rent of Rs.12.24 million during the year under review.
- 4 Amount is charged Correct expenditure depend on the Should be shown in availability of the Financial imprest and Statements. allocation for each month for each project.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2022		Delay	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
Gatambe flyover	construction	78	36	Delay	Delaying the process of land acquisition and non-payment to contractor had been affected to poor progress of the construction.
<b>Response of the Management</b>	<b>the</b>	Due to Non-Payment of IPCC Project completion could not be achieved as planned.			
<b>Auditor's Recommendations</b>		Action should be taken to expedite the project activities			

#### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the preliminary appraisal conducted in 2018 by the line ministry it had been identified saving the cost of Rs.4.26 million per day to the national economy by constructing a flyover at Kohuwala and Gatambe. However, it was observed that delaying the construction works would be caused to delay the outcome of the project.	Due to Non-Payment of IPCC Project completion could not be achieved as planned.	Action should be taken to expedite the project activities for achieve project outcome.
(ii)	Although, 07 Interim Payment Claims (IPC) of Rs.1629 million had to be paid to the contractor during the year under review, and it had been submitted to the foreign donor agency, the agency had not paid that amount until the end of the year under review. Therefore, it was a risk to pay delay charges as per the General condition of the contract at the end of the year under review.	Due to IMF Debt restructuring, Hungarian Exim Bank stopped disbursements. All outstanding payments from 2022 – April not yet paid.	Action should be taken to expedite the loan disbursement process without incurring additional cost.

### 3.3 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	88 lots of land had been acquired for the construction of the road from Pamankada to Kohuwala by the National Highway Sector Project (NHSP) in 2012 and those lands were required to construct Kohuwala Flyover under this project. However, compensation for acquired lands had not been paid until the commence of this project in 2021, hence the compensation and interest of Rs.145.47 million had to be paid for 50 landowners for the period before commencing this project. Moreover, the approval for such payment from the line ministry had not been presented to the Audit, therefore it was a problem issue in Audit.	Kohuwala Flyover construction commenced and along with it the lands acquired within Kohuwala Flyover Project area taken into MFAP and works carried on. Therefore, compensation around amount of Rs.145.47 Mn had to be paid for the land owners.	Need to be obtained approvals to pay compensation and interest for other project.
(ii)	A sum of Rs.14.65 million had been obtained from another two projects and paid compensation and interest for the land acquisition of this project at the end of the year under review. However, written approvals from the line ministry and the treasury to transfer those funds had not been presented to the audit as at 31 December 2022. Moreover, action had not been taken to settle the amount for other projects until the end of the year under review.	At the initial stage of newly commenced project, the bank Account was not opened, and the initial expenses were made from the on-going projects. Therefore, once sufficient imprest under GOSL component was received payables will be settled.	Prompt action should be taken to settle payables.