

National Highways Sector Project (Additional Financing) - 2019

The audit of the financial statements of the National Highways Sector Project (Additional Financing) for the year ended 31 December 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 62km 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 balance amount of US\$ 20.6 equivalent to Rs. 2,678 million financed by the Government of Sri Lanka. This Project is implemented to provide additional finance for simultaneous Project called National Highways Sector Project implemented under the Loan Agreement No. 2767 SRI dated 14 December 2011 entered into between the GOSL and ADB which was completed on 11 September 2017. 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 without being windup even up to 31 December 2019.

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 2019 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.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 Presentation of Financial Statements

Accounting Deficiency -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Although the activities of the Project had been closed as at 31 December 2017, the Project continues its operations without being windup even up to 31 December 2019 and the financial statements for the year under review had been prepared on going concern basis without considering the limitations imposed by the Loan Agreement to curtail the operations of the Project.	Accounting polices applied in incorrect manner.	Decision to winding up the project is still pending, due to unsettled land acquisition payments. All the roads sections have been handed over to RDA after fulfilling all contractual obligations.	All assets and liabilities of the Project need to be transferred to the Implementing Agency immediately after completion of the activities of the Project and prepare the wind up financial statements.

3. Physical Performance
3.1 Physical progress of the activities of the Project

According to the Project Implementation Plan, it was scheduled to upgrade, rehabilitate and realignment of 62 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 - Nagoda Road, Nugegoda- Homagama Road and Pamankada - Kesbewa Road. However, the rehabilitation works of 55.72 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 within the targeted period while other roads had been completed with delays ranging from 172 days to 338 days, due to various reasons such as time taken to handover the sites to the contractors, delays in conducting valuations and issuing reports thereon and delays in shifting of utility services and scope changes etc,. As a result, the delay charges aggregating to Rs.128 million deducted from 03 contractors bills had been refunded subsequently by allowing period of extensions thereon.

3.2 Extraneous Transaction

Audit Issue -----	Impact -----	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	The expenses made by the Project used to meet other purposes.	Galle – Baddegama Road is in the original road construction plan under SRCP. Until the agreements are signed, the land acquisition process has been started under NHSP. This road is	Need to adhere with the scope of works of the Project.

had not been carried out, due to lack of financial arrangements thereon.

a priority road in road development master plan. Due to limitation of funds, the construction of this road is not yet commenced.

3.3 Issues on Acquisition of Lands

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
According to the information made available, it was scheduled to acquire 7,702 plots of land including 1,362 plots of crown land. Therefore, compensation amounting to Rs.5,870 million for 4,427 plots of land had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.109.76 million had been paid as interest on delays in settlement of compensation to the 2,460 plot of land up to 31 December 2019. However, the Project had not completed the acquisition process of any plots of land even as at 31 December 2019 under Section 44 of the Land Acquisition and Settlement Act, No. 13 of 1986.	Possible dispute on issues of acquisition of lands and additional cost might be incurred.	Due interest payment for the acquired lands has to be fully settled before register under Sec 44 of Land Acquisition Act. However, registration under Sec 44 is already started in Matara – Godagama road.	The attention on acquisition of lands is needed urgently.

3.4 Under Utilized Resources

Audit Issue -----	Impact -----	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 at the end of the Project period, 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.	Intended objective of the Project could not be achieved.	All construction works have been done as scheduled and this amount is the savings.	Need to plan the construction works properly to complete them within the period of Project.