

China Development Bank Funded Priority Road Project III (Phase I) - 2019

The audit of financial statements of the China Development Bank Funded Priority Road Project III (Phase I) for the year ended 31 December 2019 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 the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Higher Education 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 is to improve mobility of National Highway Network of the country through the rehabilitation of sections of road selected on a priority basis spread throughout the country thereby facilitating access to contribute to economic development activities. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 357.69 million equivalent to Rs.46,184.54 million and out of that US\$ 300 million equivalent to Rs.38,736 million was agreed to be financed by China Development Bank. The Project commenced its activities on 09 September 2014 and scheduled to be completed by 17 June 2017. However, the completion date of the activities of the project had been extended 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 2019 and of 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. Physical Performance

2.1 Physical Progress of the activities of the Project

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
The rehabilitation works of 12 roads of 248.34 km and other 05 roads of 17.65 Km from variation orders had been completed as at 30 September 2020. Another 04 roads of 23.15 Km from variation orders are being under construction. However, construction progress of C1,C2,C12,C7,C8 and C9 roads had not been mentioned in the progress report.	Progress report for the Phase I (B) which included the mentioned contract packages was not presented to the Audit Office mistakenly. But it is available at the Project office.	Action should be taken to speed up the balance rehabilitation of roads works.

2.2 Contract Administration

Audit Issue

The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of performance security bond, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs. 86.4 million had been paid additionally to the contractors to reimburse the cost of performance security bonds related to C8,C4,C9, and C10 contract packages.

Response of the Management

Otherwise, contractors add the cost of the performance security to other pay items resulting in rate increases. Therefore, payment may under the available provision in the BOQ with pay item is not an extraneous payment.

Auditor's Recommendations

Action should be taken to recover the over payment.