

Port Access Elevated Highway Project - 2020

The audit of financial statements of the Port Access Elevated Highway 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 read in conjunction with Article II Section 2.09 of the Loan Agreement No.3716- SRI dated 17 January 2019 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 of the Project, then Ministry of Highways and Road Development presently, the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The Project is for the construction of 04 lane 5.3 km long Elevated Highway from New Kelani Bridge to Galle Face with access to the Port and proposed Multimodal Transport Hub. The objective of the Project is to have a positive impact on economic activities and regional integration. Benefits envisaged are inter-alia the ease of traffic congestion in the city of Colombo, reduction of travel time from Colombo to the Katunayake International Airport and ease of traffic congestion of logistic transport from the harbor to other regions of Colombo. The traffic congestion in the suburbs of Colombo too is also expected to ease due to the reduction expected in the movement of containers in Highways of Colombo. As per the Loan Agreement, the estimated total cost of the Project was US\$ 360 million equivalent to Rs.56,815.2 million and out of that US\$ 300 million equivalent to Rs.47,346 million was agreed to be provided by the Asian Development Bank. The balance US\$ 60 million equivalent to Rs.9,469.2 million agreed to be financed by the GOSL. The Project commenced its activities on February 2016 and the approval of the Cabinet of Ministers for the implementation of the project was received in March 2016. The Project is scheduled to be completed by 30 June 2025.

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 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 Accounting Deficiencies

	Accounting Deficiencies -----	Amount ----- Rs. mn	Management Responses -----	Auditor's Recommendations -----
(a)	Retention money amounting to Rs.146.34 million relating to the total value of the works done amounted Rs.1,463.39 million had not been accounted by the Project. As a result, the work-in-progress account and retention money account had been understated by that amount.	146.34	Audit comment is correct. Action has been taken to correct the mistake in the month of April 2021.	Action should be taken to follow the accounting policy correctly.
(b)	The revaluation gain amounting to Rs.2.71 million generated from the Central Bank Special (Dollar) account had been charged to the work in progress account without showing them under Net Assets of the Project. As a result, total cost of the Project had been understated by that amount.	2.71	Audit Comment is factually incorrect.	Need to follow the Public Sector Accounting Standard No.05.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

	Components -----	As at 31 December 2020 -----		Audit Issues -----	Reasons for delays -----
		Expected physical performance ----- percentage	Performance achieved ----- percentage		
(a)	Construction works of the Port Access Elevated Highway Project.	53%	23%	Progress of the construction works were behind the targets	Contractor's poor performance.

(b) 8 activities Expected to 8 activities related to
 Value of Rs. 10,382 commence on Zero the Project had been Not
 included in the January to June delayed to mentioned.
 procurement plan. in 2020. commence.

Response of the Contractor's poor performance causes to slow down the progress of the Project.
Management
Auditor's Action need to be taken to expedite the construction activities to complete on
Recommendation targeted dates.

3.2 Contract Administration

No	Audit Issue -----	Response of Management -----	Auditor's Recommendations -----
(a)	The overall plan, action plan, procurement plan and the progress report of the Project were not matched each other and aligned with the objectives of the Project.	Noted and proceed with necessary corrections.	Action plan, Procurement plan and progress reports of the Project should be properly prepared and use for achieving objectives of the Project by using allocated resources within the time period.
(b)	The allocation amounting to Rs.5,858 million had been provided by the General Treasury in 2020 for utilization of foreign loan. However, out of the total allocation an amounting to Rs. 4,302 million representing 73 per cent of the allocation had not been utilized by the Project due to slow progress works of the contractor.	Agreed with the comment. Contractor's poor performance causes to slow down the progress of project.	Action need to be taken to use allocated funds within the financial plan to utilize the total loan facilities before expiration.
(c)	Eventhough the payments under foreing funded projects are exempted from Value Added Tax, Implementing Agency had not taken steps to exempt local taxes on payments made to the contractors and consultants within due date. As a result, Value Added Tax amounting to Rs. 332.48 million had been paid by the Project on 29 May and 26 August during the year 2020.	Even though, we rejected to pay VAT, contractors proved that, they have already remitted the VAT component to the Inland Revenue Department, as they are liable to pay VAT	Action needed to be taken early to get the exemption for local taxes from the Department of Inland Revenue.

3.3 Issues Related to Human Resources Management

Cadre Position -----	No of Posts			Response of the Management -----	Auditor's Recommendation -----
	Approved	Actual As at 31 December 2020	No. of vacancies		
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Deputy Project Director	01	-	01	Although there are 30 positions identified in the Plan, due to delays in procurement, all staff positions were not required in 2020.	Action need to be taken by the Project to recruit the required staffs without delay to carry out activities on time and complete the works of the Project on targeted dates.
Chief Engineer	02	-	02		
Project Engineer (IT)	01	-	01		
Project Engineer (Structure/Building)	01	-	01		
Procurement Specialist	01	-	01		
Project Secretary	01	-	01		
Finance Assistant					
Management Assistant	04	01	03		
Divers	03	01	02		
Office Aide	02	-	02		
Environmental/Social officer	01	-	01		