

National Highways Sector Project -2020

The audit of the financial statements of the National Highways Sector 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 Section 34 of Schedule 6 of the Loan Agreement No. 2217 SRI dated 14 December 2006 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 the 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 the National Highways network efficiency and strengthens the road sector institutions through improve road sector institutions and developing pilot performance based maintenance contracts. As per the Loan Agreement, the estimated total cost of the Project was US\$ 208 million equivalent to Rs.21,655 million and out of that, US\$ 150 million equivalent to Rs.15,275 million was agreed to be provided by the Asian Development Bank. A Memorandum of Understanding (MOU) was signed by GOSL with ADB on 15 February 2008 and Loan Agreement had been amended accordingly on 27 May 2008 to change the scope of the Project within the original loan amount. In addition to the above Loan, another Loan Agreement No. 1355P had been signed by the GOSL with OPEC Fund for Economic Development (OFID) on 04 October 2010 and agreed to be allocated US\$ 8 million equivalent to Rs.880 million by the OFID. As per the initial Loan Agreement, the Project activities had been commenced on 07 April 2006 and scheduled to be completed by 31 December 2012. However, the project period had been extended up to 31 December 2016, due to completion of Highway Secretariat Building. The financing activities of OPEC fund for economic development (OFID) were closed on 30 June 2015. 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 Project's internal control.
- 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 information received, the upgrading and rehabilitation works of 255 km of 05 national roads had been completed by the Project and handed over to the Implementing Agency as at 31 December 2016, out of 279 km of 09 national roads scheduled to be completed as per the Project Implementation Plan.

2.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
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<p>The construction works of Highway Secretarial Building had been completed at a cost of Rs. 2,938 million by the Project and handed over to the Road Development Authority in 2016. Further, it was observed that, the Certificate of Compliance for the Building had not been issued to the Project by the Urban Development Authority even as at 31 December 2020.</p>	<p>The process of obtaining certificate of compliance is in progress with Urban Development Authority.</p>	<p>Action need to be taken to obtain Certificate of Compliance for the Highway Secretarial Building.</p>

2.3 Issues on Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
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<p>According to the information made available, it was scheduled to acquire 4,431 plots of land and out of that compensation amounting to Rs. 2,267 million compensation had been paid for 4,431 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.</p>	<p>We have already started the process of issuing of section 44.</p>	<p>Need to take expedite action to transfer the rights of the assets to the Road Development Authority.</p>