

Port Access Elevated Highway Project – 2021

The audit of financial statements of the Port Access Elevated Highway Project for the year ended 31 December 2021 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 360 US\$ 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 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 2021 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 Deficiency / Audit Issue	Amount	Management Response	Recommendation
	Rs.		
(a) Current liabilities had been overstated by Rs.94 million, due to over provision made on the payment required to be settle to the contractor of the Maritime Facilitation Building.	94	Accepted. The difference will be adjusted in 2022 financial statements.	Need to identify correct liabilities as at end of the accounting period.
(b) Property Plant and Equipment purchased at a cost of Rs.820,194 for the year 2021 had not been properly disclosed under Investing Activities of the cash flow statements of the Project.	0.82	Accepted. A sum of Rs.695,780 has been included as purchase of office equipment in the cash flows.	Need to comply with Public Sector Accounting Standard No.02.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component	As at 31 December 2021		Audit Issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Percentage	Percentage		
(a) Construction works of the Port Access Elevated Highway.	26.3	23	Actual progress was behind the planed progress.	Contractor's poor performance and Covid -19 situation of the country.

(b) 7 activities Value of Rs. 38,605 million included in the procurement plan for the year 2019.	Expected to be commenced in 2019-2021	Delayed by 2-24 months.	Activities of the Project had been commenced with delay.	Not mentioned.
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Response of the Management Accepted. Progress of PAEH at the end of December 2021 is 23.3%. Item 1-6 and 13 except Item 3, was delayed by 2- 24 months.

Auditor’s Recommendations Actions should be taken to increase the resources of the contractor and the construction work should be completed on the target dates to minimize the additional cost incurred due to construction delays.

3.2 Contract Administration

No Audit Issue

Response of Management

Auditor’s Recommendations

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| (a) According to the progress report of the Month of December 2021, the total No of designs to be submitted by the contractor was 918 as at 31 December 2021. However, 285 designs representing 31 per cent of the planned number of designs had not been completed by the contractor as the end of December 2021. Further, it was observed that, the completion of capping beam designs and decks designs were very slow and reported progress as at 31 December 2021 were 14 percent and 23 percent respectively. | According to the Contractor’s Programme-Revision 4, total number of designs to be submitted by the end of December 2021 is 918. Accordingly, 285 designs representing 31% of the planned number had not been completed at the end of December 2021. Capping beam designs and deck designs are 14 % and 23% respectively. | Need complete designing works as per programme to complete the construction activities on targeted dates. |
| (b) The designing works of the contractor is mainly affected to the construction works and its completion dates. However, the designing works of the contractor has not been satisfied by the Engineer due to several reasons such as, lack of qualified site personals of the contractor to make design modifications, highway design team working from Hong Kongkong and they do not attend any design modifications which required as per site conditions, applicable standard and guideline are not used by the contractor. | It is correct that there is an effect of the absence of the Contractor’s principal design team in Sri Lanka, on the progress and quality of initial submission of designs. This has resulted in an increase of number of submissions and the overall time taken for designs. | Need to discuss with Consultant Engineer and should carry out close supervision over contractor works to complete the activities of the Project on targeted dates. |

- (c) Allocation amounting to Rs.19,393 million had been provided by the General Treasury in 2021 for the utilization of foreign loan of the PAEH. However, the allocation amounting to Rs.14,891 million representing 77 percent had not been utilized by the Project due to slow progress works of the Project. Further, the allocation amounting to Rs.4,302 million representing 73 percent had not been utilized by the Project for the preceding year due to above reasons.
- Accepted. Due to the Covid 19 situation of the country and unforeseen utilities on site the contractor's performance was severely affected during the early period of the Project. This was the major reason for underutilization of the allocation.
- Action need to be taken to use allocated funds within the financial plan to utilize the total loan facilities before expiration.

3.3 Issues Related to Human Resources Management

Audit Issue	Risk Rating	Impact	Response of the Management	Recommendation
<p>Even though, the staff of the project office had comprised with 10 members at the end of the year under review, 30 carder positions had been approved by the Department of Management Service of the General Treasury. 20 vacancies including the key posts such as 01 Deputy Project Director, 01 Chief Engineer, 02 Senior Engineer, 01 Project Accountant and 01 Project Secretary, 3 Management Assistant etc. were remained vacant at the end of the year under review. As a result, delegating powers and responsibilities among the staffs of the Project and arrangement of sound internal control over the activities of the Project had been adversely affected.</p>	<p>Medium</p>	<p>Impossible to carry out sound internal control over the activities of the Project.</p>	<p>Although there are 30 positions identified in the Plan, due to delays in procurement, all staff positions were not required in 2020.</p>	<p>Action need to be taken to recruit required staffs according to the requirement of the Project.</p>