

OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project - 2021

The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways 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. 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 Ports, Shipping and Highways, presently the Ministry of Transport & Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project was to upgrading 65.45 kilometres of 13 key national roads in Colombo suburbs and reconstructing of Narahenpita - Nugegoda Bridge. The estimated total cost of the Project amounted to US\$ 86.25 million equivalent to Rs.11,212.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57 million was agreed to be provided by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017. However, the date of completion of the activities of the Project had been extended up to 31 December 2022.

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 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 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. million	Management Responses	Auditor's Recommendations
(a)	Already disbursed amount had been shown as disbursable foreign aid without being recorded under the foreign aid in the financial statements.	525	From the initial stage of the project, disbursements from the loan have been accounted based on Report of the Department of State Accounts. Rs. 525 million was recorded in the Disbursable foreign Aid Account since it was not in the Report of the Department of State Accounts.	Action need to be taken to record actual disbursements of the Project to reflect the correct loan balance as at 31 December 2021.
(b)	Interest required to be paid for the delay in payment of statutory compensation of Rs.239 million to the land owners of the Walgama- Diyagama road had not been recorded in the financial statement of the Project as at 31 December 2021.	88.00	Noted and action will be taken to account the interest provision for Walgama-Diyagama Road in year 2022.	Action need to be taken to rectify the interest payable account as at 31 December 2021.
(c)	Contractor payable account had been understated due to incorrect provisions made for the Interim Payment Certificate No.24 related to Orugodawatta Ambatale Stage- I for the month of December 2021.	10.56	The referred Interim Payment Certificate for December 2021 for Orugodawatta - Ambatale Road (Stage 1) was received to PMU after the preparation of the Financial Statements.	Action need to be taken to record correct liability as at 31 December 2021.
(d)	Long term borrowing received from the Road Development had been shown in the financial statements of the Project. However, the corresponding amount had not been shown in the financial statements of the Road Development Authority.	1,478	-	Project financial statements should be comply with entity financial statements.

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		
Kottawa-Thalagala Road	100%	97.5 %	Even hough the activities of the Project commenced on 11 December 2013 and scheduled to be completed by 31 December 2017, the rehabilitation works of 24.07 km of 06 national roads and improvement of the Bridge had only been completed as at 31 December 2021.	Progress of the project delay mainly due to land acquisition delay and utility shifting delay.
Orugodawatta – Ambathale Road (Stage-1)	100%	72 %		
Orugodawatta – Ambathale Road (Stage-1)	66 %	64 %		

Response of the Management Agreed. It had been completed 24.07 km of National Roads and Widening of Bridge No. 2/1 of Narhenpita- Nugegoda Road as schedule since no land acquisition was involved with the said contracts.

Auditor’s Recommendation Action need to be taken to expedite the construction activities to complete the works on targeted dates.

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>The allocation amounting to Rs.1,430 million and Rs.2,801 million had been provided by the General Treasury in 2021 for the utilization of foreign loan and GOSL expenditure respectively. However, foreign loan allocation amounting to Rs.525 million representing 37 per cent and GOSL allocation amounting to Rs.469 million representing 17 per cent had not been utilized by the Project due to slow progress works of the Project.</p>	<p>Agreed. The under utilization of foreign loan allocation is due to land acquisition and utility shifting delay. However, Contractor's poor performance also contributes to delay the project. The GOSL allocation is underutilized due to non-receiving of imprest.</p>	<p>Activities of the Project should be properly planned to increase the efficiency of fund utilization of the Project.</p>
(b)	<p>The original contract value of Rs. 1,253 million of the Kottawa- Thalagala Road had been subsequently increased to Rs.1,630 million by Rs.377 million representing 30 per cent, due to prolong project period and quantity variation. However, the required approval of the Technical Evaluation Committee and the Procurement Committee as per the Section 8.13.4 of the Government Procurement Guidelines 2006 had not been submitted to the audit.</p>	<p>Agreed. Contract value of Kottawa – Thalagala road project was revised as per the procurement Guideline and reports pertaining to procurement activities are available at this office.</p>	<p>Need to take relevant approval as per the Section 8.13.4 of the Government Procurement Guidelines 2006.</p>
(c)	<p>The contract for the rehabilitation works of Orugodawatta – Ambathale Road Stage- I had been commenced on 01 July 2017 at a cost of Rs. 1,528 million and planned to complete on 30 June 2019. However, the period of contract had been extended by the Project in five times up to 30 September 202 by granting 639 days of time extension to the contractor. Although the performance of the contractor was very poor and slow, the action had not been taken by the Project to deduct delay damages from the contractor as per the Condition of Contract. Further, it was observed that the contractor claim amounting to Rs.17.41 million relating to cost of time extension of 175 days granted had been approved by the Project without considering the contractor performance.</p>	<p>The Engineer evaluated this EOT claim and granted 175 days of extension to the Contract. The Engineer has clearly shown in his evaluation report that the project was delayed 175 days due to the Employer's risk events and Contractor's culpable delay events of 175 Days which are concurrently Occurred.</p>	<p>Need to evaluate contractor performance in timely manner and require charges should be implemented.</p>

3.3 Issues relating to the Land Acquisition

Audit Issue

**Response of the
Management**

**Auditor's
Recommendation**

According the information received, it was scheduled to be acquired 5,456 plots of land including 907 plots of crown land. Out of that the compensation amounting to Rs.10,998 million including interest Rs.1,312 million had been incurred by the Project for the Land Acquisition activities as at 31 December 2021, due to delays in settlement of the compensations. However, only 05 plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2021.

Agreed According to the sub clause 44 of land acquisition act, lands are registered in land register after paying of interest payment for delay payment of compensation. However, very recently it has been decided to register the lands before payments of interest.

Action need to be taken to accelerate the land acquisition activities and register the lands under section 44 of the land acquisition Act.