

OPEC Funded Western Province Road Development Project - 2021

The audit of the financial statements of the OPEC Funded Western Province Road Development 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 the 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 Highways and Investment Promotions presently the Ministry of Transport & Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is the upgrading, improvement and widening of 27 Km of pre-selected national highways in the Western Province of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be provided by the OPEC Fund for International Development. The Project had commenced its construction activities on 05 October 2017 and scheduled to be completed by 28 June 2019. The activities of the Project had extended up to 30 September 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 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 this 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. million | Management Responses | Auditor's Recommendations |
|-----|---|-------------------------------|---|---|
| (a) | Already disbursed amounts of Rs.31.89 million had been shown as disburseable foreign aid without being recorded under the foreign aid in the financial statements. | 31.89 | From the initial stage of the project, disbursements from the loan have been accounted based on Report of the Department of State Accounts. Rs.31.28 million was recorded in the Disburseable 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) | Contractor payable account had been overstated by Rs.18.57 million, due incorrect provisions made for the Interim Payment Certificate No.36 for the month of December 2021. | 18.57 | Expected construction progress for Kaduwela – Athurugiriya Road project could not be achieved due to the post covid-19 situation and shortage of material such as blasting materials and cement. | Action need to be taken to record correct liability as at 31 December 2021. |
| (c) | The provision for the interest payable of the Kaduwela-Aturugiriya Road on land acquisition had been overstated by Rs.15.99 million, due to duplication of accrued interest as at 31 December 2021. | 15.99 | Noted to adjust the related duplication of interest expense accordingly. | Action need to be taken to rectify the mistakes. |

| | | | | |
|-----|---|--------|---|--|
| (d) | Interest payable amounting to Rs.69.97 million related to the Kaduwela- Athurugiriya Road on land acquisition had been erroneously recorded as compensation payable as at December 2021. | 69.97 | Noted to adjust the related accounting error of interest expense accordingly. | Action need to be taken to rectify the mistakes. |
| (e) | Long term borrowing amounting to Rs. 119.38 million received from the Road Development Authority 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. | 119.38 | Not commented | Action need to be taken to rectify the mistakes. |

3. Physical Performance

3.1 Physical Progress of the Activities of the Projects

According to the Project documents, the rehabilitation works of 25.8 Km of the 04 national roads were expected to carried out and awarded the contracts thereon under 02 contract packages. Eventhough the Loan Agreement was signed on 26 June 2015, the rehabilitation works of 02 contract packages had been commenced after lapsed of 2 ½ years. According to the progress report, the contractor had achieved only 82.79 per cent progress against the targeted physical progress of 96.52 per cent of the Kaduwela to Athurugiriya road under contract package -I as at 31 December 2021. Subsequently, the rehabilitation works of 1.25 km of Walgama- Athurugiriya road under contract package -I had been deleted from the scope of works of the Project, due to shortage of funds. The rehabilitation works of 2 roads under contract package-II had been completed as at 31 December 2021.

3.2 Contract Administration

| No | Audit Issues | Responses of the Management | Auditor's Recommendations |
|-----|---|--|---|
| (a) | The loan agreement of the Western Province Road development Project was signed on 26 June 2015 for US\$ 17 million and was expired on 30 June 2019. However, due to delay in the construction activities of the Project, the loan closing date had been extended several times by the Funding Agency up to 30 September 2022. Although the loan repayment had been commenced in 2020, the Project was unable to disburse amounting to US\$ 5.19 million representing 31 per cent of the total loan facilities as at 31 December 2021. | Agreed. The two contracts are not performed as programme due to land acquisition delay and utility shifting delay mainly CEB pole shifting work. The above situation caused for less disbursement of the loan. | The activities of the Project should properly plan and should expedite to complete them before expiration of loan. |
| (b) | The allocation amounting to Rs.450 million and Rs.85 million had been provided by the General Treasury in year 2021 for utilization of foreign loan and GOSL expenditure respectively. However, the allocation of foreign loan amounting to Rs.70.5 million representing 16 per cent and GOSL allocation 4.1 million representing 5 per cent had not been utilized by the Project due to slow progress works of the Project. | Agreed. | Activities of the Project should be properly planned to increase the efficiency of fund utilization of the Project. |
| (c) | Out of total construction cost of Rs.1,064 million of the contract Package -2, Rs.291 million representing 27 per cent of the had been increased, due to subsequent changes to the original scope of works. 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. | Agreed. The total contract sum of package II had been increased due to delay in land acquisition, quantity increase of buildup drains and wall construction. | Need to take relevant approval as per the Section 8.13.4 of the Government Procurement Guidelines 2006. |

3.3 Issues relating to the Land Acquisition

| Audit Issue | Response of the Management | Auditor's Recommendation |
|--|---|--|
| According to the information made available, it was schedule to be acquired 2,611 plots of land including 458 plots of land owned to the Government and out of that compensation amounting to Rs.1,412.48 million had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.97.27 million had been paid as interest on delays in settlement of compensation up to 31 December 2021. However, no any plot 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. |