

## **Construction of Flyovers over Railway Line at Uttarananda Mawatha and near Slave Island Railway Station Project - 2021**

The audit of financial statements of the Construction of Flyovers over Railway Line at Uttarananda Mawatha and near Slave Island Railway Station 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**

The Ministry of Transport and Highways is the Executive Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the project is prepare an integral traffic management plan ease out the traffic congestion in at-grade level crossing in the Sri Uttarananda Mawatha and Justice Akbar Mawatha and improving the mobility in Baladaksha Mawatha, Sri Mohamad Macon Markar Mawatha, Sri James Peiris Mawatha (A004 Road), Malay Street, Church Road and Other Roads in Slave Island area. The estimated cost of the project is Rs.9,133.25 million and total cost is expected to be financed by the Government of Sri Lanka. The Construction works of the project had been commenced on 16 June 2021 and scheduled to be completed by 15 June 2022.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 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**

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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 Deficiency**

<b>Accounting Deficiency</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
A sum of Rs.344.2 million of funds received from the Road Development Authority during the year under review had been shown as borrowings instead of being shown as funds received from Road Development Authority in the Statement of financial position, Statement of Changes in funds and the statement of cash flows for the year ended 31 December 2022 erroneously.	It is noted to correct as Funds received by Road Development Authority in year 2022.	All funding sources required to be recorded in line with Sri Lanka Public Sector Accounting Standard No.01.

### 3. Physical Performance

#### 3.1 Physical Progress of the Activities

The following observations are made.

No	Component	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Construction of flyovers	The Construction of contract package 1 and 2 were expected to be completed on 20 June 2022 and 28 June 2022 respectively. However, the Project could only achieved 58 and 57 per cent physical progress against the targeted physical progress of 87 and 85 under contract package 1 and 2 respectively.	Contractors have taken steps to suspend the work until outstanding payments.	Necessary action should be taken to achieve intended targets of the project.
(b)	Land Acquisition	Although only the Section 2 notice had been published as per the Land Acquisition Act, the construction works had been commenced and 50 per cent and 35 per cent of physical progress had been achieved as at 31 December 2021 in contract package 1 and 2 respectively. Further, it was observed that the advance tracing of the lands also not completed as at that date.	Now Section 2 was published and 38(a) is already sent to be published.	Action need to be taken to speed up the land acquisition works.

#### 3.2 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a).	It was observed that the contractor of Contract package 1 had been suspended from their construction works from 12 May 2022, due to delay in receiving interim payment certificates. Further noted that, the contractor of the contract package 2 also issued a notification of potential impacts and suspension works on 19 April 2022. Therefore, it is possible to incur additional cost in future, due to delay in payments and the completion of the construction works may also be delayed.	Agreed.	Necessary actions should be taken for the speed up the construction works to minimize the additional work.

- (b). A sum of Rs.4.4 million had been approved for the payment of Asphalt laying works at Masjidul Jamaiah Road under the variation order 01 which was out of scope of the project's rehabilitation works. Request of safety committee Engineer decided to do the Asphalt along the said road. Action need to be taken to use the funds within the scope.
- (c). The separate pay items had been made in the Bill of Quantities by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance guarantees at cost of respective contractor. Accordingly, a sum of Rs.19.85 million had been paid additionally to the both contractors under pay item 1.3.2. Amount is not stated in the Appendix to Tender, this sub-clause shall not apply. Therefore, this is considered as an Employer's requirement. Bidding documents should be prepared correctly.
- (d). A sum of Rs. 2,589.24 million for 12 Interim Payment Certificates from Month of September were remained outstanding for both contractors as at 30 May 2022. Accordingly, there is a possibility to pay more additional delayed interest claims in future. Not receiving of imprest to do the project was the reason for delaying the projects. And also it is true that there is a possibility of pay more additional delayed interest claims in future for the two Contractors. Action should be taken to regularize the matter to minimize the possible delayed interest claims in future.
- (e). As per Sub Clause 14.7 and 14.8 of General Conditions of Contract, the contractors had requested an amount of Rs.52.09 million and Rs.11.78 million as the claim on delayed interest under the contract package 01 and 02 respectively. It is accepted that Rs.52.09 Million has requested by the contractor. Action should be taken to regularize the matter to minimize the possible delayed interest claims in future.