

Port Access Elevated Highway Project - 2022

The audit of financial statements of the Port Access Elevated Highway Project for the year ended 31 December 2022 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 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 US\$ 360 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 financed by the Asian Development Bank. The balance US\$ 60 million equivalent to Rs.9,469.2 million agreed to be financed by the Government of Sri Lanka.

The Project had 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 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 2022 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 Rs.	Response of the Management	Auditors Recommendation
Depreciation amounting to Rs.1,904,332 for the year 2022 as per financial statements had not been adjusted as a non-cash movement under operating activities in the Cash Flow Statement as per the Public Sector Accounting Standard No. 02.	1,904,332	Accepted. Financial Statements for the year ended 2023 will be presented accordingly.	Adhere to the Sri Lanka Public Sector Accounting Standards.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component	Activity	As at 31 December 2022 Expected physical performance percentage	Performance achieved percentage	Audit Issue	Reasons for delays
(a) Construction works of the Port Access Elevated Highway.	Construction	87	54	Adversely affect to the completion of the Project.	Contractor's poor performance & Covid 19 situation of the country.

Response of the Management

A progress of 54.3% was achieved against 86.7%. Delay of possession of the section from P79 to P85 (SLPA Main Stores and Workshop area) contributed mainly to this delay.

Auditor's Recommendations

Action should be taken to expedite the construction works to minimize the additional cost.

(b) Construction of Maritime Facilitation Center.	Construction	69	22	Adversely affect the completion of the Project.	Delay in the procurement process, contractor's poor performance, Covid 19 situation of the country.
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Response of the Management

Current progress is over 27%. However, since the Contractor suffers severe cash flow issues due to global inflation he has requested to pay for the escalation in USD to overcome this situation.

Auditor's Recommendations

Need to take action to catch-up the delays and ensure to complete the contract works within the target dates to avoid additional costs.

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The key performance indicators had not been established to measure the progress and outcome of the project operation.	We use quantities of critical work items and the overall progress as key performance indicators for monitoring of progress.	Action should be taken to establish "SMART" KPIs.
(b)	Even though the physical progress of the contract for civil works of the Port Access Elevated Highway was 54 percent as at 31 December 2022, the financial progress was amounted to Rs.23,430.34 million which represents 83 percent from the total cost estimate of Rs.28,002 million. Further, according to the progress report of the Consultant, the estimate of the works would be increased up to Rs.50.8 billion by 81 per cent on the original contract amount due to price variances. It was observed that the slow progress of civil works had mainly affected for that cost overrun.	The factors contributed to the slow progress are Covid pandemic, unidentified utilities, economic crisis and related material shortage etc. Even those factors were not present; the Project could not have been completed in time due to the possession delay of SLPA.	Need to take action to catch-up the delays and ensure to complete the contract works within the target dates to avoid additional costs.
(c)	The advance payment guarantee relevant to the consulting services of Project Management Consultant for Electronic Toll Collection System had been expired on 28 February 2023. However, mobilization advances amounting to Rs.3.8 million had not been recovered by the Project even up to 31 March 2023	The Consultant's invoices with amounts sufficient for recovery of advance payment were available in PMU before the time of lapse of Advance Guarantee.	Action should be taken to recover the advance payment in a timely manner.
(d)	Even though the Consultant had instructed the Port Access Elevated Highway Contractor to directly engage a qualified locally-based Highway Design Engineer/ Highway Engineer to overcome the issues relevant to designing	The Consultant (Engineer) ensures that the designs are completed according to the standards specified in the Contract.	Consultancy works should be closely monitored in order to complete works within the time frame.

works and expedite the work, evidence had not been forwarded to audit that engagement had been made by the Contractor. The Contractor had continued to submit inferior quality designs, including resubmitting stripped-down versions of the previously approved designs, especially for road furniture items. According to the Consultant's progress report, this has become a significant issue since these submissions had not complied any Sri Lankan practices or applicable standards (national and international) and also the Contractor has delayed the submission of several crucial design components. According to the fourth revised design plan, the Contractor had failed to submit 07 capping beam designs and 06 deck designs up to 31 December 2022.

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| (e) | Due to delay in the completion and handing over of the Maritime Facilitation Center building to the Sri Lanka Ports Authority, the Project had mobilized the existing staff of the Sri Lanka Ports Authority (SLPA) to the rented out buildings. In this regard, the Project had paid a sum of Rs.116.9 million as at 31 December 2022 out of the total payable amount of Rs.195.47 million. | Due to early relocation of occupants of SLPA buildings, a substantial delay of possession of site could be avoided and hence the progress of PAEH construction could be maintained. | Action should be taken to expedite the construction works to minimize the additional costs. |
| (f) | Although the Contractor shall provide all required equipment for field laboratory at his cost and field laboratory equipment will be reverted to contractor at the completion of the Project and also the survey equipment shall revert to the contractor at the end of the contract as per Sub clauses 108.4 and 120.7 of the Specifications to the Contract, the Project had paid a sum of Rs.14.21 million as a lump sum for field laboratory equipment and survey equipment as at 31 December 2022. Accordingly, it was observed that unusual contract conditions may lead to undue benefits to the contractor. | If those items become property of RDA at the end of the Contract, the Contractor may quote a very high price, and finally, there is no benefit to RDA. | Sound contract conditions should be introduced to minimize undue benefits to contractors. |

3.3 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The concurrence of the Asian Development Bank had been requested by the Project on 02 February 2023 to cancel the implementation of electronic toll collection system (ETC) which had an estimated value of USD 28.4 million due to insufficiency of available loan funds. However, the Project had paid a sum of Rs.161.69 million for consulting services for Project Management Consultant for ETC System as at 31 December 2022. Accordingly, it was observed that due to the cancellation of the ETC System, the above expenditure will be a fruitless expense to the Project.	The specifications and designs can be utilized in the future when a decision to implement ETC System is taken. Arrangements are done under Technical Assistance of ADB, to implement an ETC system for the expressway network based on an alternative procedure.	Action should be taken to implement the project activities effectively.
(b)	The construction of workshop building complex had been awarded at a contract price of Rs.1,090.08 million in August 2021 for a contract period of 270 days. However, it had been delayed and the overall cumulative progress of the 04 buildings as at 30 April 2023 was 87 percent and the relevant site had not been handed over to the contractor of the elevated highway even by May 2023. As a result, the construction of elevated highway will be delayed further and duration of construction period may be extended up to June 2024.	It was continuously discussed and inspected with ADB and with project level and ministerial level officials	Corrective action should be taken to expedite the works on time
(c)	As per the Terms of Reference (TOR) of the Consulting service for construction supervision for the Port Access Elevated Highway, the Consultant's international and national staff includes 55 cadre with key positions. However, 02 individual consultants had been appointed by the Project in addition to that consultancy service and a sum of Rs.13.9 million had been paid as at 31 December 2022. It was a problematic issue in audit.	The two individual consultancy provisions have been introduced to advise the Project Director of RDA in fulfilling the obligations of RDA and safeguarding the interests of RDA as the Employer.	Instruction should be given to manage the consulting service without recruiting individual consultants.
(d)	As per the delegation of Financial Authority for the year 2022 before the contract is awarded, approval of the Additional Secretary (Admin.) or the Chief Financial Officer should be obtained for the determination made by the Procurement	Agreed, approval will be taken as per Procurement Guidelines this year onwards.	Adhere to the government procurement Guidelines

Committee. However, action had not been taken to obtain such an approval for purchase of capital assets with a value of Rs.2,092,925 during the year 2022.

- (e) Due to slow progress of civil works, out of the GOSL allocation of Rs.100 million for the year 2022, the Project had utilized only Rs.20.67 million and 79 percent of the allocation had not been utilized during the year under review and 77 percent and 73 percent of the allocation of foreign funds had not been utilized during the year 2021 and 2020 respectively. Further, it was observed that, commitment charges of Rs.322.41 million had been paid to the Lending Agency uneconomically on undisbursed proceeds of the loan as at 31 December 2022.
- Allocation for 2020 & 2021 were not fully utilized due to delays arisen from Covid pandemic, utilities changes and delay in issuing Port entry passes etc.
- Action should be taken to utilize loan funds effectively.