

## **OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project - 2022**

---

The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways 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. 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, the Ministry of Ports, Shipping and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to upgrading 65.45 kilometres of 13 key national roads in Colombo suburbs and reconstructing of Narahenpita - Nugegoda Bridge. As per the Loan Agreement 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 financed 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 29 February 2024.

### **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 2022 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

	<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(i)	As per the Section 43(a) of Sri Lanka public Sector Accounting Standard 5 assets and liabilities for each statement of financial position should be translated at the closing	7,179	We have recorded the actual disbursement amount and we have not considered exchange rate as at 31st December 2022 to record foreign loan	Adhere to the Sri Lanka Public Sector Accounting Standard

foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments amounting to Rs.7,179 million relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.

- |       |  |        |  |  |
|-------|--|--------|--|--|
| (ii)  | Although the total disbursement amount of the project for the year under review was Rs.607.85 million, it had been shown under financing activities in the cash flow statement as Rs.1,067.16 million.   | 607.85 | The total disbursements for year 2022 was Rs.607.85 Mn. However, project had shown Rs.1,067.16Mn with previous years disbursements                   | Adhere to the Sri Lanka Public Sector Accounting Standard          |
| (iii) | The total disbursement of the project for the year under review as per the report of the External Recourses Department was Rs.541.97 million however, it had been shown as Rs.607.85 million in the financial statement, thus a difference of Rs.65.88 million had not been reconciled.  | 541.9  | Rs.65.88 Mn has shown as foreign aid receivables, since we have presented such IPCs for payments through ERD.  | Action should be taken to reconcile ERD reports and State accounts |
| (iv)  | Even though fully depreciated 11 computers valued Rs.1.16 million were further being used, the useful life of assets had been annually reviewed in terms of section 65 of the Sri Lanka Public Sector Accounting Standard No. 07. Accordingly, action had not been taken to rectify the estimated error in terms of the Sri Lanka Public Sector Accounting Standard No 03. | 1.16   | Agreed.<br>Action will be taken to rectify the error according to section 65 of the Sri Lanka Public Sector Accounting Standard No. 07 in year 2023. | Adhere to the Sri Lanka Public Sector Accounting Standard          |
| (v)   | Court cases against the Project had not been disclosed in the Financial Statement as per Sri Lanka Public Sector Accounting Standard No. 08.   | -      | Agreed. Action will be taken to disclose in the financial statements in year 2023.   | Adhere to the Sri Lanka Public Sector Accounting Standard          |

## 2.2 Unsettled Balances

Description	Amount Rs. million	Period Unsettled	Response of the Management	Auditor's Recommendation
(i) The Project had not taken any action to recover 03 receivable balances regarding advertisement, survey work, landslide study, pavement design and environmental consultation expenses totalling to Rs.15.33 million over 01 to 02 years as at 31 December 2022.	15.33	1 to 2 years	Once sufficient imprest was received, the receivables will be obtained from the referred projects.	Prompt action should be taken to recover receivable without further delay.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

Component	Activity	As at 31 December 2022		Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
Orugodawatta-Ambathale Road ( Stage-01)	Road Construction	100%	84	Actual progress of the respective roads were behind the planed progress.	The contractor's poor performance and delay of land acquisition activities.
( Stage-02)		100%	79%		

#### Response of the Management

Agreed.  
The contractor's poor performance and other activities such as land acquisition and utility shifting also contribute the project delay.

#### Auditor's Recommendations

Action need to be taken to expedite the road construction works within the scheduled dates

### 3.2 Contract Administration

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Even though a tender had been called through the newspaper advertisement dated 07 March 2022 for improving Piliyandala to Maharagama road, contract had not been awarded even up to 31 December 2022. Delay in land acquisition mainly affected to that delay.	One bidder is filed FR case against the award and it is the main cause for awarding delay.	Action should be taken to expedite the civil work as scheduled.

### 3.3 Issues relating to the Land Acquisition

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
According to the information received, it was scheduled to be acquired 5,717 plots of land including 962 plots of crown land for the Project activities and the compensation amounting to Rs.12,275 million including interest of Rs.2,192 million had been paid by the project for 4,410 plots of land due to delays in settlement of the compensations as at 31 December 2022. However, only 514 plots of land had been registered under section 44 of the Land Acquisition Act as at 31 December 2022. Further, it may be adversely affected to the performance of the Project	The registration of acquired lands under section 44 of the land acquisition act is carried out by relevant Divisional Secretariats (DSS). There is delay in registration at DS office and it has been sent several reminders to complete the same.	Action should be taken to expedite the Land acquisition process

### 3.4 Idle/ Unutilized/ Underutilized Resources

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The allocation amounting to Rs.1,150 million and Rs.585 million had been provided under foreign loan and GOSL component respectively during the year under review. However, foreign loan allocation of Rs.83 million representing 7 per cent and GOSL allocation of Rs.465 million representing 79 percent had not been utilized by the Project due to poor progress of the Project activities.	Sufficient imprest under GOSL component was not received. Therefore, 79% of GOSL allocation was not utilized.	Action should be taken to utilize the loan fund effectively.

### 3.5 System and Controls

#### Audit Issue

Even though seven project offices had been operated in 1<sup>st</sup> floor of the building, rent of building had not been apportioned among these seven projects in a reasonable manner. Therefore the project had paid 03 months rent amounting to Rs.3.16 million for the entire building for the year under review.

#### Response of the Management

Agreed.

#### Auditor's Recommendation

Action should be taken to allocate rent chargers for each Project.