Western Province Road Development Project - 2022

The audit of the financial statements of the OPEC Funded Western Province Road Development 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 the Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, 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 objectives of the Project is to 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 wasUS$24.87 million equivalent to Rs.3,232.5 million and out of that US$ 17 million equivalent to Rs.2,209.84 million was agreed to be financed by OPEC Fund for International Development. The Project had commenced its activities on 05 October 2017 and scheduled to be completed by 28 June 2019. However, the date of completion of the activities of the Project had been extended up to 30 September 2023.

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 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 Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	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 foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments amounting to Rs.2,268 million relating to the foreign loan of the project had not been accounted for the year under review	2,268	The project disbursements are made in Rupees and therefore not engage in foreign currency transactions. Therefore, we have shown Rs. 2,576.53 Mn in the financial statements as loan disbursements. We have not identified Rs. 4,844.95 Mn as foreign loan balance in the disbursement detailed report.	Adhere to the Sri Lanka Public Sector Accounting Standard
(b)	As per the Interim Payment Certificate No.47 related to the Package – I, the provision of Rs.170 million related to civil works had not been accounted as a result, work in progress had been understated by that amount in the financial statements of the year under review.	170	Agreed. The referred Interim Payment Certificate for December 2022 for Kaduwela - Athurugiriya Road was received to PMU after the preparation of the Financial Statements.	Adhere to the Sri Lanka Public Sector Accounting Standard
(c)	As per the Section 18 of Sri Lanka Public Sector Accounting Standard – 04, borrowing cost that are directly attributable to the acquisition, construction or production of assets should be capitalized as part of the cost of that assets. However, the Project had not capitalized borrowing cost relevant to the NSB loan as at 31 December 2022.	119.38	Project had not obtained a loan from NSB but Rs. 119.38 million temporary financing was received from Road Development Authority for urgent land acquisition payments and that amount was shown under Equity in the project financial statements.	Adhere to the Sri Lanka Public Sector Accounting Standard
(d)	As per the information from the OPEC records, it was observed that, a sum of Rs.508.21 million had been disbursed by the project from the loan for the year 2022 However, only Rs.474.43 million	508.21	Agreed. The total disbursements for year 2022 was Rs. 508.21 Mn. From the initial stage of the project, disbursements from the loan has been accounted based	Action should be taken to reconcile ERD reports and State accounts.

had been accounted and balance amounting to Rs.33.78 million had been shown as foreign aid receivable in the financial statement. Accordingly, disbursed amount from the loan had not been identified accurately by the Project. As a result, statement of changes in equity and notes to the financial statements had been presented erroneously.	on Report of the Department of State Accounts. Therefore, project had shown Rs. 474.43 Mn in the Financial Statement. The balance amount of Rs. 33.78 Mn was uncounted and we have shown as foreign aid receivable in Financial Statement.

2.2 Unsettled Balances

No	Description	Amount Rs. million	Period Unsettled	Response of the Management	Auditor's Recommendation
(a)	The Project had not taken any action to recover three balances receivable from other Projects regarding advertisement, survey work, landslide study, pavement design and environmental consultation expenses totaling to Rs.17.62 million over the last five years as at 31 December 2022.	17.62	Over 5 Years	When sufficient imprest receive the receivables will be settled from the referred projects.	Prompt action should be taken to recover receivable without further delay.
(b)	Although long-term borrowing amounting to Rs.119 million received from the Road Development Authority had been shown as equity in the financial statements of the Project, the details relating to the loan had not been made to audit. Further it was observed that RDA had not obtained the proper approval for that loan.	119	Over 5 Years	This is not a loan received from Road Development Authority to the project and only financial assistance to settle urgent land acquisition payments.	Approved documents related to Financial Assistance need to be provided to the Audit.

3. Physical Performance

3.1 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The loan agreement of the Project was signed on 26 June 2015 for US$ 17 million and schedule to be completed 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 2023. Although the loan repayment had been commenced in 2020, the Project was unable to disburse of US$ 3.66 million representing 21 per cent of the total loan facilities as at 31 December 2022.	Agreed. However, construction activities of the project were delayed mainly due to land acquisition delay. It has been disbursed US$ 14.4 Mn as at 30.06.2023 which is 84.70% of the loan amount.	Loan fund should be utilized effectively.
(b)	The contractor for the Package-1 rehabilitation works of Kaduwela to Athurugiriya road had been commenced on 29 January 2018 at a cost of Rs.1,065 million and scheduled to be completed on 28 July 2019. However, the period of contract had been extended by the Project up to 04 March 2023 by granting of 1,315 days of time extension. Although the performance of the contractor was very poor, 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 had claimed Rs.65 million relating to cost of time extension and the Project had approved that claim without considering contractor poor performance.	The project was delayed not due to the poor performance of the Contractor. At the initial stage land acquisition was delayed due to non-payment of compensation and project was delay at latter part due to economic crisis of the country which leads to shortage of material specially fuel. Hence, Contractor is entitled for the EOT and relevant claims.	Corrective action should be taken to complete the works on scheduled time without incurring additional cost.
(c)	The original contract value of Rs.1,065 million of the Kaduwela - Athurugiruya Road had been subsequently increased to Rs.1,518 million by Rs.453 million representing 42 percent 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	The B.O.Q. amount is increased due to the following reasons. 1. Extension of project period. 2. Most of existing culvert proposed to widen when prepare B.O.Q. but Engineer has recommended to	Need to be obtained approvals from the relevant authorities as per the Procurement Guidelines.

	Guidelines 2006, had not been submitted to the audit. Further, it was observed that, the poor performance of contractor had been adversely affected to overrun the project cost.	reconstruct most of culvert due to deplorable condition of the same. 3. The original identified built up drain length was drastically increased due to public request and cover slabs were provided most of Business places.	
(d)	The Consultancy agreement of the Project was commenced on 08 March 2018 for Rs.148 million and original completion date was 28 July 2019. However, due to delay in the construction works of the Project, the consultancy fee had been revised up to Rs.291 million and Completion date had been extended several times up to 31 January 2023. However a sum of Rs.144 million had been paid without getting proper approvals.	The Consultancy agreement was revised time to time due to extension of construction period of civil work contracts. The Procurement Committee approvals were obtained when extent the consultancy period.	Need to be obtained approvals from the relevant authorities
(e)	The original Project cost estimate of Rs.3,233 million had been subsequently increased up to Rs.4,590 million by Rs.1358 million representing 42 per cent due to the engineer's estimates of the contract packages had not been prepared in an accurate manner. Further it was observed that it was adversely affect to overrun the Project cost.	Agreed. Project cost estimate comprise with two parts such as foreign and local allocation. The foreign allocation was increased due to rupee depreciation and local allocation was increased due to land acquisition cost and interest payment for land acquisition payment delay.	Action should be taken to prepare cost estimate in an accurate manner.
(f)	Although the Contractor shall provide all required equipment for engineer's office at his cost and equipment for engineer's office will be reverted to contractor at the completion of the Project as per the Sub clause 122 of the Specifications to the Contract, a sum of Rs.10.35 million had been paid as a lump sum for office equipment as at 31 December 2022. Further, vehicles for the Engineer shall revert to the contractor at the end of the Contract as per Sub clause 126 of the Specifications to the Contract whereas a sum of Rs.26.11 million had been paid as a lump sum for vehicles as at	Bids are invited on competitive basis and bidders submitted their bids accordingly. It can be assumed that the depreciation value of items are considered in their bids since items back to the Contractor after completion of the project.	Sound contract conditions should be introduced to minimize the undue benefits to contractors.

	Audit Issue	Response of the Management	Auditor's Recommendation
	31 December 2022. Thus it may indicate that unusual contract conditions may lead to undue benefits to the contractor.		
(g)	Eventhough contractor had submitted interim payment certificates No. 34 to 40 amounting to Rs.408 million relevant to the Package OFID-3/1 for the payment on time, the Project had settled the payments with delays. As a result, the Project had to be paid Rs.12 million of VAT additionally. It was observed that the delay in settlement of contractor payments had caused to overrun the project cost.	Agreed. Sufficient imprest not receive to settle the VAT payment and relevant VAT payment was made during this year (2023), current rate is applied for the date of payment.	Prompt action should be taken to settle the contractor liability without delay as per the contract conditions.

3.2 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available, it was scheduled to acquire 2,747 plots of land including 548 plots of land owned to the Government and the compensation amount of Rs.1,470 million had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.420 million had been paid as interest on delays in settlement of compensation up to 31 December 2022. However, only 337 plots of land had been registered under section 44 of the Land Acquisition Act as at31 December 2022.	The registration of acquired lands under Section 44 of the land acquisition act is carried out by relevant Divisional Secretaries (DSS). There is delay in registration at DS office and it has been sent several reminders to complete the same.	Action need to be taken to expedite the payment of compensation and transfer the ownership of lands to the RDA

3.3 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendations
The allocation amounting to Rs.550 million and Rs.250 million had been provided by the General Treasury in the year 2022 for utilization of foreign loan and GOSL expenditure respectively. However, the allocation of foreign loan amounting to Rs.75.3 million representing 14 per cent and GOSL allocation Rs.180 million representing 72 per cent had not been utilized by the Project due to slow progress works of the Project.	Rs. 75.56 Mn was shown as foreign aid receivables. Sufficient imprest under GOSL component was not received. Therefore, only 28 per cent of GOSL allocation was utilized.	Action should be taken to utilize the loan fund effectively.