

## **Port Access Elevated Highway Project - 2018**

---

The audit of financial statements of the Port Access Elevated Highway Project for the year ended 31 December 2018 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 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.

### **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 & Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project are 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. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 360.2 million equivalent to Rs.56,850 million and out of that US\$ 300 million equivalent to Rs 47,349 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs.9,501 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities in February 2016 and scheduled to be completed in 2025.

### **1.3 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 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **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 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.

In preparing the financial statements, management is responsible for assessing the Projects ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **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

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
Remuneration and allowances aggregating Rs.8.19 million incurred by the Project during the year under review for the staff of the Elevated Highway from New Kelani Bridge to Athurugiriya Project had been charged to this Project.	Overstated the staff cost of the Project.	The payment of the salaries and allowances of the staff of Elevated Highway from New Kelani Bridge to Athurugiriya was continued by the Port Access Elevated Highway Project until opening of a separate Bank Account of the respective Project.	Overhead cost of the Project should be segregated among the Project to reflect the costs of such projects separately.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

The activities on construction works of Port Access Elevated Highway including the supervision consultancy services, design work of the buildings and construction supervision of the buildings and workshops at the Port was expected to be carried out by the Project. The following observations are made.

### 3.2 Unutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the Procurement Plan of the Project for the year 2018, the construction works of Port Access Elevated Highway had been planned to commence during the year under review at an estimated cost of Rs.44,945 million. However, such activities had not been commenced even as at 30 June 2019 except the piling works carried out for the construction of relocation of the buildings at the Port. As a result, out of the allocation amounting to Rs.3,040 million made in the Budget Estimate – 2018 to meet the capital expenditure of	Possible delays in commencement of the construction of the Highway.	Due to increased bore hole investigation and delay in consultant's detailed design, we were unable to invite the bid as programmed.	Considering the overall plan, achievable targets should be decided to set and the allocation should be requested accordingly.

the Project, a sum of Rs.2,925 million had been transferred to the other Project. Further, a sum of Rs.84.55 million had been returned to the General Treasury at the end of the year under review.

### 3.3 Human Resources Utilization

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>Out of 21 senior positions of the carder of the Project approved by the Department of Management Services, the suitable officers for 15 posts including 02 Chief Engineers, a Deputy Project Director, a Project Engineer and a Project Accountant had not been recruited even as at 31 December 2018. Further, a Data Base Network Administrator had been recruited without being obtained the approval of the Department of Management Service and paid remuneration amounting to Rs.889,992 during the year under review.</p>	<p>Possible delays in commencement of the designing and construction of the Highway</p>	<p>Agreed</p>	<p>Immediate action need to be taken to recruite qualified staff for the Project to commence the road construction works.</p>