

Elevated Highway from New Kelani Bridge to Athurugiriya - 2019

The audit of the financial statements of the Elevated Highway from New Kelani Bridge to Athurugiriya Project for the year ended 31 December 2019 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

The Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project are expected to have a positive impact on economic activities, ease of traffic congestion, reduction of travel time, improved investment and employment opportunities and also the reduction of poverty and unemployment. The estimated cost of the Phase 1 of the highway is between Rs.55 billion and scheduled to be completed in November 2021.

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 2019 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 Project's internal control.
- 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 Physical Performance

2.1 Physical Progress of the activities of the Project

- (a) The construction of Elevated Highway from New Kelani Bridge to Athurugiriya Project had been approved by the Cabinet of Ministers on 02 March 2016. The Project consists of two Phases, the Phase I includes 6.9 Kilometers from New Kelani Bridge to Rajagiriya and the Phase II includes 10.4 Kilometers from Rajagiriya to Athurugiriya. The feasibility study of the Phase I have already been completed under the scope of Southern Highway Extension Towards Colombo Project (SHETCP) in 2015. The feasibility study of the Phase II had been completed and handed over to the Project on 22 August 2019 with delays of 294 days from initially agreed period, due to frequent modifications of the plan and the profile of alignment as a result of public protest to the social survey and issues raised by the Central Environmental Authority. However, the Environmental Impact Assessment Report was not approved by the

Central Environmental Authority even up to 31 July 2020, due to highway trace is going through Environmental Protected Area.

- (b) The Elevated Highway from New Kelani Bridge to Athurugirya Project is the first Project which will construct under Build Operate Transfer basis in Sri Lanka. The Cabinet Committee on Economic Management granted approval on 08 June 2016 to invite Request for Proposal on BOT basis and the approval of the Cabinet of Ministers had been obtained on 28 June 2016. The prospective bidders had been invited to submit separate Expression of Interest (EOI) to invest in two Phases of the Project. Accordingly, 14 applications for Phase I and 9 applications for Phase II had been received. Out of 14 EOIs received for phase I, 9 qualified companies had been short listed for issuing request for proposal documents. Accordingly, the decision of the Cabinet of Ministers on 03 September 2019 had granted approval to invite proposal from the shortlisted parties for the Phase I of the Project under “Availability” PPP-BOT Model. However, according to the decision of the Cabinet of Minister on 06 May 2020 to canceled the previous Cabinet decision and authorization had been given to the Ministry of Roads and Highways to work with BOI for the evaluation of investment proposal of the China Harbor Engineering Company Ltd already submitted to Board of Investment.

2.2 Non-Compliance with Rules and Regulations

Reference to the Rules and Regulations	Non- Compliance	Impact	Response of the Management	Auditor’s Recommendation
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Public Administration Circular No. 09/2009 dated 16 April 2009	The arrival and departure of the Project staff should be confirmed through the finger scanners. However, Project does not use the finger scanner to record the times arrivals and departures of the staff of the Project and overtime amounting to Rs.1,728,104 during the year under review had been paid without confirming the attendance using finger scanners.	Possibility of unauthorized payment been made.	I agree with the auditor’s comments on non-use of Finger Scanners to confirm the attendance of the project staff and the payment of overtime during the period under review.	Action should be taken to adhere with Circular instructions.

2.3 Issues on Land Acquisition

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
The actual land acquisition progress of the Project was 27 per cent against the targeted progress of 33 per cent. However, Section 38 had not been gazette even as at 31 December 2019, due to lack of allocation for land acquisition and resettlement activities.	Possible delays in commencement of the construction works.	The progress of land acquisition process of the project slightly behind the target level as on 31 December 2019 This was mainly due to dawdling performance of other stakeholders. The performance of the Department of Survey and related offices of Divisional Secretariat directly affected to the land acquisition process of the project.	Need to take action to complete land acquisition before commencement of construction.