

OPEC Funded Rehabilitation and Improvement of A017 Road Corridor Project (Rakwana-Suriyakanda) - 2021

The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of A 017 Road Corridor Project (Rakwana-Suriyakanda) for the year ended 31 December 2021 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. This Project is implemented under the decision made at the meeting of cabinet of Ministers held on 01 January 2019. 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 information of the Project, the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to rehabilitate 18 km of the A017 Road Corridor in Sri Lanka, starting from 130.6 km in Rakwana and ending on 112.6 km in Suriyakanda in Sabaragamuwa Province. The overall objective of the Project is to improve connectivity and accessibility which in turn is expected to promote economic activity and contribute to the general socio- economic development in Sri Lanka. The corridor shall be designed as a two lane highway (10.0 m) with hard and soft shoulders on both sides. As per the Loan Agreement, the estimated total cost of the Project was US\$ 50.54 million equivalent to Rs.6,947.2 million and out of that US\$ 40 million equivalent to Rs. 5,497.9 million was agreed to be provided by the OPEC Fund for International Development. The Loan Agreement was signed on 30 October 2019 and scheduled to be closed on 30 September 2023. However, civil construction activities of the Project had not been commenced even as at 30 June 2022.

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 2021 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 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. Physical and Financial Performance of the Project

2.1 Progress of the Activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to the information, the Project had planned to commence road rehabilitation works of 18 km from Ch.112+600 Km to Ch.130+600 Km under 3 contract packages. However, the contract awarding activities of the 3 contract packages had not been completed even as at 30 June 2022, due to delay in procurement activities of the Project.	Agreed. PMU has commenced procurement activities after receiving donor concurrence for the same. However, there is a drastic delay on receiving of donor concurrence for the procurement activities which are beyond PMU control.	Action need to be taken to commence the civil construction works without further delays.
(b)	According to the information of the national budget, out of GOSL allocation of Rs.33 million for the capital expenditure for the year under review, only Rs.5.97 million representing 18 per cent had been utilized by the Project.	Agreed. Though the PMU has programmed to commence the project during 1 st quarter of the year 2022 the commencement date was delayed due to delay on receiving of donor concurrence and caused to reduce the expenditure of allocated amounts.	Activities of the Project should be properly planned to utilize allocated recourses effectively.

2.2 Delays in Commencements of Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
Although the Government of Sri Lanka obtained a loan amounting to US\$ 40 million from the OPEC funded for International Development (OFID) towards the cost of Rehabilitation of 18 Km length of the A017 Road Corridor Project (Suriyakanda – Rakwana) in the year 2019, the construction activities of the Project had not been commenced even after laps of 3 years from the date of loan agreement. As a result, the loan facilities of the Project remained idle more than 2 years without utilizing for the intended purposes as at 31	Agreed. Procurement activities were commenced for the project during month of January 2020 and government has decided to use the loan amount to COVID - 19 Emergency support activities on 18.05.2020. However, donor has not responded for the above request and subsequently, External Resources Department (ERD) informed donor to disregard the request and decided to implement the original proposed road improvement work	Action need to be taken to utilized the total loan facilities before expiration of loan facilities on 30 September 2023.

December 2021. Further, it was observed that loan facilities scheduled to be closed on 30 September 2023.

on 22.02.2021. Accordingly, PMU start procurement activities. However, due to this situation other activities such as land acquisition and approvals from other agencies were carrying out on slow phase.

2.3 Issues relating to the Land Acquisition

Audit Issue

According to the information made available, it was scheduled to acquire 736 plots of land for the construction of contract package-1 of the Project. The Project had issued Section 38(a) only for 227 plots of land and no compensation had been assessed for any plots of land under the Section 17. Further, it was observed that the initial activities of the land acquisition only had been carried out by the Project for the construction of other two contract packages as at 30 June 2022. Therefore, it is not possible to hand over the position of sites to the respective contractors to commence the road construction works.

Response of the Management

The land acquisition is being carried out under two Divisional Secretaries namely Kolonna (112.6km-118.1km) and Godakawela (118.1km-130.6km). The land acquisition is carrying out with a participation of three government institutions namely Divisional Secretary, Survey Department and valuation department. There is a delay on acquisition process due to current situation in the country. However, section 38(a) gazette notification for the road section under Godakawela DS Division was published on 25.07.2021.

Auditor's Recommendation

Action need to be taken to accelerate the land acquisition activities to able to hand over the position of site to the contractors an agreed time lines.