

OPEC Funded Rehabilitation of the A017 Road Corridor Project (Rakwana - Suriyakanda) - 2022

The audit of the financial statements of the OPEC Funded Rehabilitation of the A017 Road Corridor Project (Rakwana - Suriyakanda) 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. 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 Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to rehabilitate 18.0 km of the A017 Road Corridor in Sri Lanka, starting from 130.6 km in Rakwana and ending on 112.6 km in Suriyakanda, 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 been commenced at the end of the year with delay.

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 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a) Disbursed amount of Rs.320.47 million as at 31 December 2022 had been shown as operating activities in the cash flow statement instead of shown as financing activities. As a result,	320.47	Agreed. Noted and action will be taken to classify accordingly in cash flow statement in year 2023.	Operating activities and financing activities should be shown correctly in the cash flow statement.

net cash generated from operating activities and net cash generated from financing activities had been overstated and understated respectively by that amount.

(b)	Provision for payables to the contractors under package A and package B had been shown as Rs.95.80 million instead of being shown as Rs.85.40 million. As a result, work in progress and current liabilities for the year under review had been overstated.	10.4	Agreed. Over provision has been adjusted in year 2023.	Adhere to the Sri Lanka Public Sector Accounting Standard.
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2.2 Unsettled Balances

Audit Issue

**Amount
Rs.
million**

**Period
Unsettled**

**Response of the
Management**

**Auditor's
Recommendation**

Action had not been taken to settle the payables amounting to Rs.31.90 million shown under current liabilities since the year 2021 even up to 31 December 2022. Non-availability of imprest is mainly affected to that situation.

31.90

Over 1 year

Agreed.
Sufficient imprest under GOSL component was not received.

Prompt action should be taken to settle the payable.

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		
Civil Works	Construction	40	11	Civil construction activities of the project had been commenced at the end of the year under review after laps of 04 years due to delays in procurement	Procurement activities being suspended temporarily, Delay in land acquisition.

process and delay in land acquisition. Further it was observed that the project activities could not be achieved within the project period

Delay in obtaining donor concurrence

Response of the Management

Not agreed.

Government has decided to use the loan amount to COVID -19 Emergency support activities on 18.05.2020. and hence, procurement activities being suspended temporarily.

Further, due to this situation other activities, such as land acquisition and approvals from other agencies, were carrying out on slow phase.

Auditor’s Recommendations

Loan facility should be utilized effectively within the scheduled period.

3.2 Contract Administration

Audit Issue

According to the information made available to audit, the project had planned to commence road rehabilitation works of 18 km under 3 contract packages. However, works under contract package (C) had not been commenced during the year under review due to delay in procurement process. It may be lead to overrun the construction cost of the project.

Response of the Management

Agreed.
The commencement date of package (C) was delayed due to the reasons mentioned in the Item 4.1 (a) above and date of commencement of the project is 27.12.2022.

Auditor’s Recommendation

Action should be taken to expedite the procurement process.

3.3 Issues Related to Human Resources Management

Audit Issue

Approved cadre for this project could not be identified separately in the Audit due to the fact the staff has been assigned to seven projects. As a result, it was observed that this situation was badly affected the progress of the project.

Response of the Management

Agreed.
It was requested separate carder for this project and approval yet to be received.

Auditor’s Recommendation

Proper approval should be obtained for Project carder

3.4 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available to audit, it was scheduled to acquire 1515 plots of land for the construction of the Project. The Project had only issued Section 38(a) for 789 plots of land. However, compensation had not been assessed for any plots of land under the Section 17 up to 31 December 2022. Poor supervision of land acquisition process was mainly affected to the delay and it may be adversely affected to overrun the project cost in future.	Agreed. There is a delay on acquisition process due to prevailed situation during the COVID period in the country.	Land acquisition process should be expedited and compensation should be assessed within the scheduled time.

3.5 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The allocation amounting to Rs.325.17 million and Rs.70 million had been provided under of foreign loan and GOSL component respectively during the year under review. However, only Rs.7.24 million representing 10 per cent of GOSL allocation had been utilized by the Project and entire foreign loan allocation had not been utilized due to poor progress of the project.	Sufficient imprest under GOSL component was not received; therefore, only 10 per cent of GOSL allocation was utilized.	Action should be taken to utilize Project fund effectively.

3.6 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
Even though seven project offices had been operated in 1 st floor of the building, rent of building had not been apportioned among these seven projects in a reasonable manner. The Project had paid rent of Rs.1,020,000 for the entire building during the year under review.	Agreed. There are 07 projects implement under the Miscellaneous Foreign Aided Project. Therefore, amount is charged depend on the availability of imprest and allocation for each month for each project.	Action should be taken to apportion rent reasonably.