

Central Expressway Project – Phase IV - 2018

The audit of financial statements of the Central Expressway Project – Phase IV 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. 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

Then Ministry of Highways and Road Development, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to develop the road network according to the Road Master Plan 2007-2017 in order to create new economic avenues to the general public and therefore, it is expected to construct a section of the Expressway of 58.7 kilometres from Kurunegala to Dambulla under the Phase IV of the Central Expressway at an estimated cost of Rs. 161.6 billion.

1.3 Qualified 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 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.

In preparing the financial statements, management is responsible for assessing the Project 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 Program 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 Deficiencies

The following observations are made.

	Accounting Deficiencies	Impacts	Comments of the Management	Auditor's Recommendations
(a)	Action had not been taken to determine and brought to account the values of the asset transferred to the Project Monitoring Unit from the Road Development Authority during the year under review and previous years.	Understatement of assets and liabilities.	The top management of Road Development Authority had agreed to decide a rental for the usage of assets. However, still the Project had not received any feedback and will provide in the 2019 financial statements.	Actual cost of the Project need to be accounted.
(b)	The Project had not taken action to segregate the costs aggregating Rs. 2,193 million incurred in connection with the feasibility studies of the entire Central Expressway and brought the relevant portion for the Part-IV of Project into account.	Understatement of assets and liabilities.	Action will be taken in due course.	Actual cost incurred for the Project need to be accounted.

2.2 Non-compliance with Laws, Rules and Regulations

The following observations are made.

	Reference to the Laws, Rules and Regulations	Audit Issues	Impacts	Response of the Management	Auditor's Recommendations
(a)	Public Finance Circular No.5/2016 dated 31 March 2016 and the Financial Regulations.	A Board of survey of the asset belongs to the Project had not been conducted and submit a report to the Auditor General.	Misuse of Assets	Agreed.	Circular instructions need to be adhered.
(b)	Department of Management Services Circular No. 1/2016 dated 24	Eventhough there should be an agreement or at least an assurance or certainty for	Unnecessary cost may incur for maintenance	Initially China Gezhouba Group International Engineering Co. Ltd	Circular instructions need to be followed and financing arrangement need to

March 2016. receiving the funds from of project was identified but be introduced. a donor at the time of management the contract was not implementing the unit without proceeded, due to Project, the Project had starting the unavoidable reason not followed such a construction. in year 2016. process. As a result, the project is still in progress without having a donor nearly 3 years.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
The Project consisted with the construction of 58.70 kilometres of the Central Expressway from Kurunegala to Dambulla. Eventhough the Project Management Unit was established in 2016 and incurred expenses amounting to Rs.182.30 million on operations of the Project Management Unit up to 31 December 2018, the civil construction works of the Expressway had not been commenced even up 30 October 2019.	Possible to increase of costs, due to delays in commencement of civil works.	Project had been started its financial activity on 01 July 2016 and monthly average cost is Rs.6.11million (for 30 months). Staff had to be assigned for the land acquisition and activities prior to commencement of civil work.	Proper monitoring procedure should be followed to achieve the time targets to avoid the cost increase and extension of the period of the contracts.

3.2 Contract Administration

The following observations are made.

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) Eventhough the incentive aggregating to Rs.3.5 million had been paid to the officers of the Line Ministry, Survey General's Department and Department of Valuation to expedite the process, the process of the acquisition of lands for the road construction works	Possibility to increase the interest costs on compensation, due to delays in settlements of claims.	According to the circular No. HAP-2/15/CORDI/15/1552 issued by Ministry of Public Administration and Home Affairs, the incentive paid for officers of the Ministry,	Action should be taken to speedup land acquisition process.

had shown slow progress as at 31 December 2018.

Survey Department and Valuation Department to expedite land acquisition activities can be divided according to the section of Land acquisition Act. Project still had been paid only the incentive applicable for Section 2, 38(a) and 5.

- (b) Most of the Land in Dambulla areas belongs to Temple, Devala or encroachments. However, an additional relief apart from the Gazette Extraordinary No. 1864/54 dated 30 May 2014 had been requested by the owners of the said lands and the way of paying compensation for them had not been finalized even up to September 2019.
- Possibility to increase the interest costs on compensation, due to delays in settlements of claims.
- Most of the Land owners of Galewela and Dambulla area are entitled the compensation and payments are not finalized because the discussion underway regarding the payments of land owners by implementing the Cabinet paper.
- Action should be taken to speedup land acquisition process.

3.3 Extraneous Activities

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
A sum of Rs. 6.5 million had been spent by the Project during the year under review for development activities of the Polonnaruwa district was not directly related to achieve the objectives of the Project.	Possible misuse of funds.	The funds had utilized, due to urgency requirement of Polonnaruwa project. The total amount will be recovered before the end of year 2019.	Action should be taken to recover the payments made to the extraneous activities of the Project.

3.4 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
If a project is launched under the local funds exceeding US\$ 5 million, there should be an agreement entered between the Ministry of Roads and Highways and Road Development Authority.	Total cost of the project may be increase.	Accordingly the cabinet approval had been obtained for concessionary funding for large scale projects. Thus EXIM bank of China had agreed to	Action should be taken for financial arrangement.

However, such an agreement had not been signed therefore it is questionable that the payment of salaries and other benefits to the project staff may be eligible under a foreign funded project.

provide a loan.

3.5 Issues Related to Human Resources Management

The following observations are made.

Audit Issues	Impacts	Response of the Management	Auditor's Recommendations
(a) The Project had recruited 03 Management Assistants exceeding the cadre approved by the Department of Management Services and paid Rs. 1,437,568 during the year under review.	Excess staff may lead additional cost to the project.	Agreed. Even though cadre approval granted for Office Manager and two Administrative Assistants those vacancies are not yet fulfilled. Therefore all administrative works covered by Management Assistants.	Required employees should be recruited within the approval limit.
b) A sum of Rs. 708,550 had been paid for three consultants assigned for the Project on contract basis without being obtained the relevant approval of the Department of Management Services and the paid consultancy fee which had been included to the salaries and wages paid during the year under review.	Probable losses due to unskilled employees' involvement.	Three Consultants have been assigned for section IV of the Central Expressway Project by the higher management of the Road development Authority for assignment basis. Out of three, Two Consultants reported to work and already terminated from May and June 2018 and remaining post is for consultant (Technical Service).	Relevant approval need to be obtained.