

## Southern Transport Development Project - 2018

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The audit of the financial statements of the Southern Transport Development 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 Loan Agreements No. 1711-SRI (SF), No. 2413-SRI, No.SL-P-70, No.SL-P-92, NDF 324, No. BLA 201011 and No. BLA 201012 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank, Japan Bank for International Corporation, Nordic Development Fund Loan and Export Import Bank of China. 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

According to the Loan Agreements, then Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is Implementing Agency of the Project. The objective of the Project is to assist to enhance the economic condition of the Southern Province by encouraging industries, tourism, fisheries and agriculture sectors. The output of the Project was the first access controlled highway of Sri Lanka with the length of 126 kilometres, connecting Kottawa in the Western Province to Matara in the Southern Province with an access road to connect the City of Galle. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 661.14 million equivalent to Rs. 107,873 million. Details of the overall sources of funds for the construction of the Southern Expressway are shown below.

Lending Agency	Amount Agreed US\$ million	Percentage
Asian Development Bank	186.00	28.13
Japan Bank for International Corporation	103.00	15.58
Nordic Development Fund	5.40	0.82
Swedish International Development Association	0.80	0.12
Export Import Bank China	138.21	20.90
Government of Sri Lanka	<u>227.73</u>	<u>34.45</u>
<b>Total</b>	<b><u>661.14</u></b>	<b><u>100.00</u></b>

The construction works of the Expressway had been completed in 2014 and upon completion of the construction works, the Road Development Authority had decided to utilize the saving of the Loans amounting to Rs.4.40 billion to carry out rehabilitation works of 14 national and provincial roads which have direct or indirect connectivity to Southern Expressway and reconstruction works of 02 bridges in the Southern Province. The activities of the Project are expected to be completed as at 31 December 2016. However, the operations of the Project had been continued even up to 31 December 2018 and financial statements thereon had been submitted for audit.

### 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 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 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 Non- compliance with Laws, Rules and Regulations**

<b>Accounting Deficiency</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Retention money aggregating Rs.194.67 million payable to 02 contractors had been set off against the cost of the Expressway without being obtained the concurrence of the respective contractors, as required by the Clause 14.12 of the Condition of the Contract.	Possibility to arise a liability to the Implementing Agency.	The contractor had not made any request to release the retention. Therefore, during the widening up process in 2018 this amount was transferred to the cost of the Expressway transferred to the Road Development Authority.	Need to be obtained the concurrence of the respective contractors, as required by the Clause 14.12 of the Condition of the Contract.

## **3. Physical Performance**

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

The construction works of the section of the Southern Expressway of 95.05 kilometres from Kottawa in the Western Province to Pinnaduwa in the Southern Province commenced in 2006 had been completed and opened for the use of general public on 27 November 2011. The construction works of other section of the Expressway from Pinnaduwa to Godagama of 30 kilometres commenced in 2011 was opened for the use of general public on 15 March 2014. The total cost of the construction works of the Expressway amounted to Rs.116,347 million. The following observation is made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>Eventhough the construction works of the Expressway was completed in 2014, the financial statements of the Project had been prepared and presented even up to 31 December 2018, due to unsettled issues on acquisition of lands. According to the information made available, a sum of Rs.6,766 million had been paid as at 31 December 2018 to acquire 9,595 plots of land including the additional payments amounting to Rs.3,928 million under the decisions of the Land Acquisition and Resettlement Committees and interest on delays in settlement of compensation amounting to Rs.347.98 million. Further, 569 plots of land in 06 Divisional Secretariat areas had remained unregistered under Section 44 of the Land Acquisition and Resettlement Act, No. 13 of 1986 even at the end of the year under review.</p>	<p>Possibility to continue the operations of the Project incurring additional costs on Project monitoring purposes.</p>	<p>No comments received.</p>	<p>Need to be transfer the remaining activities to the Road Development Authority and windup the operations of the Project Monitoring Unit.</p>