

## **Extension of Southern Expressway Project - Section 3 - 2021**

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The audit of winding up financial statements of the Extension of Southern Expressway Project - Section 3 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. 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 Loan Agreement, the Ministry of Transport and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project.

The objective of the Project identified as one of the key components in the development of the road network to support and facilitate the activities of the Hambantota International Hub Development.

As per the Loan Agreement, the estimated total cost of the extension of 15 km of Southern Expressway from Wetiya to Andarawewa under Section 03 of the Project was Rs.36,174 million and US\$ 252 million equivalents to Rs.31,574 million was agreed to be financed by Export Import Bank of China for the civil works.

The Project had commenced its activities on 25 January 2016 and scheduled to be completed by 25 January 2018. However, the date of completion of the activities of the Project had been extended up to 12 June 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the paragraph 2 of this report, 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 Qualified Opinion**

My opinion is qualified on the matters described in Paragraph 2 of this report.

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 scepticism 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

No	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	Although the fixed assets amounting to Rs.40,997.35 million had been handed over to the Road Development Authority (RDA) as per the winding up financial statements of the project as at 31 December 2021, it was stated as	3,775.17	No comment	Assets should be capitalized in RDA accounts without delay.

Rs.37,222.18 million in the financial statements of the RDA as at 31 December 2022. Therefore, the assets of the RDA were understated by Rs.3,775.17 million as at 31 December 2022 due to the delay in issuing the winding up financial statement of the project until 20 March 2023.

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| (b) | According to the Section 2.2 the Loan agreement, the commitment charges and interest chargers had not been accounted in the financial statements as at 31 December 2021. As a result the loan balance and the work in progress in the financial statements had been understated by that amount.   | 3,075.14 | The interest and commitment charges to the loan paid by the General Treasury through their Vote and accounted in their Financial Statements. Therefore, it is a cost of the General Treasury.  | Interest and commitment chargers should be accounted in the project financial statements. |
| (c) | According special conditions No. 1.10 of the Agreement for Consultancy Services, the corporate tax on the consultancy should be paid by the GOSL. However corporate tax provision for consultancy services had not been made in the financial statements as at 31 December 2021 as per Sri Lanka Public Sector Accounting Standards No.08. As a result, liabilities of the Project had been understated by that amount.   | 30.20    | Although the payment of Corporate Tax of the Consultant by the GOSL has been stipulated in Clause 1.10 of the Special Conditions of the Agreement for the Consultancy, the payment agency (RDA) does not agree with the amount identified by the Project up to now. Accordingly, the relevant liability cannot be realistically estimated. | Adhere to the Sri Lanka Public Sector Accounting Standards.                               |
| (d) | As per the Section 18 of Sri Lanka Public Sector Accounting Standard – 04, borrowing cost that are directly attributable to the acquisition, construction or production of assets should be capitalized as part of the cost of that assets. However, the Project had not capitalized borrowing cost relevant to the domestic borrowings amounting to Rs. 137.41 million as at 31 December 2021. As a result, equity of the Project had been understated by that amount. | -        | Interest cost pertaining to these loans had been accounted separately by its primary borrower, RDA. All the cash flows associated with debt serving incurred in RDA books and no any involvement by the project. Under these circumstances, debt servicing has been accounted by the RDA and not taken into projects accounts.             | Adhere to the Sri Lanka Public Sector Accounting Standards.                               |

- (e) Contrary to the Public Sector Accounting Standards No. 08, provision had not been made for the compensation and delayed interest need to be paid on land acquisition as at 31 December 2021.
- Land acquisition and interest payment in present and future will be included in Financial Statements of RDA.
- Provision should be made for Compensation and delayed interest.

**3. Physical Performance**

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

**(i) Land Registration**

Component	Activity	As at 31 December 2021		Delay/ Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Plots	Plots		
Land acquisition	Title transfer to RDA			Although the project had been completed on 12 June 2019, only 32 plots of lands were registered under Road Development Authority as per the sub clause 44 of the Land Acquisition Act even as at 31 December 2021.	Inefficiency in land acquisition process.
	Crown lands	822	32		
	Private lands	2,207			

**Response of the Management** In this Project, the Divisional Secretaries act as the acquiring officers. Accordingly, the process of Section 44 also done by them, after paying the compensation.

**Auditor’s Recommendations** Maximum effort should be taken to complete the land acquisition to avoid additional cost.

**3.2 Contract Administration**

Audit Issue	Response of the Management	Auditor’s Recommendation
According to the chapter 8.33 of the Feasibility Report, a location had been identified for construct the Service Area in section 3 of Extension of Sothern Expressway. However, it had not been estimated and BOQ provisions had not been made to construct service areas for whole Extension of Sothern Expressway. Hence, there were no any service areas	However, none of the ESEP Contract BOQ has made provisions to construct the service area through the civil works Contracts at the conceptual stage. Although it was not included in the plans, the Chairman RDA had communicated with EXIM Bank of China through ERD explaining the importance of establishing a second service area for ESEP for the benefit of the road users. However, the	Necessary action should be taken to achieve intended targets of the project timely.

after Welipanna is available for highway users. Therefore, servicing the public had not been provided when they are travelling for a 176 km from Welipanna to Hambantota. EXIM Bank of China denied providing funds for the second service area.

### 3.3 Achievement of Key Performance Indicators

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
<p>The Extension of Sothern Expressway Project Section 3 is approximately 15 km from Wetiya to Andarawewa is the third section of the access –controlled expressway from Matara to Mattala via Andarawewa and Hambantota. Stimulate economic development, provide more economical freight transport and environmentally friendly expressway, provide passenger transport to destination in a shorter time period etc. were identified as project objectives. However, the formulation of Key Performance Indicators to evaluate the project objectives and evaluation of achievement of the indicators were not revealed to the audit.</p>	<p>Appraisal Report of the Department of National Planning containing the project objectives is presented.</p>	<p>KPIs should be established and measured at the end of the project.</p>