

Extension of Southern Expressway Project - Section 2 - 2021

The audit of winding up financial statements of the Extension of Southern Expressway Project - Section 2 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 is to provide a link between the proposed Hambantota International Development Hub project, commercial capital, Hambantota International Harbor and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota.

As per the Loan Agreement, the estimated total cost of the extension of 26 km of Southern Expressway from Beliatte to Wetiya under Section 02 of the Project was Rs.60,601.60 million and out of that 85 per cent of the cost of US\$ 360.29 million equivalent to Rs.46,920 million was agreed to be financed by Export Import Bank of China for the civil and consultancy works. The balance 15 per cent of US\$ 63.58 million was agreed to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 28 October 2016 and scheduled to be completed by 27 October 2019. However, the date of completion of the activities of the Project had been extended up to 11 April 2020.

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

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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.58,874.64 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	7,020.29	No comment	Assets should be capitalized in RDA accounts without delay.

Rs.51,854.35 million in the financial statements of the RDA as at 31 December 2022. Therefore, the assets of the RDA were understated by Rs. 7,020.29 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) | Although the accumulated interest and commitment fee paid on loan as per the article 2.2 of the loan agreement by the External Resource Department as at 31 December 2021 had not been accounted in the financial statements of the Project. Therefore, foreign loan balance and work in progress in the financial statements had been understated by that amount. | 3,204.42 | 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 considered as a cost of the General Treasury. Road Development Authority is not directly related to the interest charges and commitment charges. | Interest and commitment fee should be accounted in project financial statements. |
| (c) | As per the Section 18 of the 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 local bank borrowings amounting to Rs. 7,517.72 million as at 31 December 2021. | - | RDA has obtained term loans from local banks from time to time for financing project cost. However, interest cost pertaining to these loans has 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. | Adhere to the Sri Lanka Public Sector Accounting Standard. |
| (d) | 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 payment of compensation were handled by the Land Division of the RDA. Hence all liabilities related to land acquisition and interest payment are already included in Financial Statements of RDA. | Adhere to the Public Sector Accounting Standard. |
| (e) | According to the notes to the financial statements, an amount had been claimed by the Supervision Consultant as Corporate Tax. However, provision had not been | 33.12 | Although the payment of the Corporate Tax of the Consultant by the GOSL had been stipulated in Clause 1.10 of the Special Conditions of the Agreement for | Adhere to the Sri Lanka Public Sector Accounting Standard. |

made in the financial statements for that liability as per the Sri Lanka Public Sector Accounting Standards No.08. As a result liabilities of the Project had been understated by that amount.

the Consultancy, the payment agency (RDA) does not agree with the amount identified by the Project up to now.

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| (f) | Even though the decision had been issued by Dispute Adjudication Board (DAB) to pay an interest to the contractor due to the delay payments, a provision had not been made according to the Sri Lanka Public Sector Accounting Standards No.08. As a result liabilities of the Project had been understated by that amount. | 31.67 | The Contractor raised objection to reduce the amount which was approved by the DAB. Having considered with the situation, the amount of claim was not realistically estimated due to disagreement. | Adhere to the Sri Lanka Public Sector Accounting Standard. |
| (g) | The details of retentions on land acquisition amounting to Rs.3.23 million as at 31 December 2021 had not been disclosed in the financial statements and thus it could not be confirmed in audit. | 3.23 | No comment | The details should be furnished to audit. |

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019	Although the Steering Committee of the Project should be met at least once in two months, it had not been conducted during the year under review.	Steering Committee Meeting was not conducted in the year of 2021.	Adhere to the Circular instructions.

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 Plots	Performance achieved Plots		
Land acquisition	Title transfer to RDA			Although the project had been completed on 24 February 2020, it was observed that only 32 plots of lands were registered under Road Development Authority as per the Section 44 of the Land Acquisition Act even as at 31 December 2021.	Inefficiency in land acquisition process.
	Crown lands	914	} 32		
	Private lands	2,170			

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 achieve intended targets of the project within the time frame to avoid additional cost.

(ii) Land Acquisition

Component	Activity	As at 31 December 2021		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Plots	Performance achieved Plots		
Land acquisition	Acquisition of lands			Even though the land acquisition process started in the year 2014 and incentives amounting to Rs.14.82 million had been paid to the officers of Department of Survey, Valuation Department and Divisional Secretariat Offices to expedite and complete the land acquisition procedures within 26 weeks, that process is still in progress even as at the date of audit.	Inefficiency in land acquisition process.
	Crown lands	914	} 2,884		
	Private lands	2,170			

Response of the Management At present, the main scope of the land acquisition of this section is already completed and some situational additional acquisitions are in process. However, there will be no incentive payments approved to any activity which completed beyond the stipulated time frame.

Auditor's Recommendations Maximum effort should be taken to achieve intended targets of the project within the time frame.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Although two locations of Service Area had been mentioned in chapter 8.33 of the feasibility report, it had not been estimated and BOQ provisions had not been made to construct service area for whole Extension of Southern Expressway. Therefore, no any service area for the users of Southern Expressway from Welipenna to Hambanthota for the distance of 176 km.	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 EXIM Bank of China denied providing funds for it.	Necessary action should be taken to achieve intended targets of the project timely.

3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
Out of the total allocation of Rs.9,279.35 million made in the budget, a sum of Rs.9,018.42 million had been utilized by the Project for the year under review.	Accepted.	Maximum effort should be taken to utilize the fund during the project period.

3.4 Achievement of Key Performance Indicators

Audit Issue	Response of the Management	Auditor's Recommendation
The Extension of Southern Expressway Project Section 2 is approximately 26 km from Beliatta to Wetiya is the second section of the access-controlled expressway from Matara to Mattala via Andarawewa and Hambanthota. Simulate economic development, provide an environmental friendly expressway, encourage foreign investors by reducing travel time, creation of new employment opportunities in interchange areas due to quick development etc. were identified as project objectives. However, the formulation of Key Performance Indicators and evaluation of achievement of the indicators were not revealed to the audit.	Appraisal Report of the Department of National Planning containing the project objectives.	KPIs should be established and measured at the end of the project.