

Northern Expressway Project - 2014

The audit of financial statements of the Northern Expressway Project for the year ended 31 December 2014 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

The Executing and Implementing Agencies of the Project are then Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways and the Road Development Authority respectively. The objectives of the Project is the construction of the Northern Expressway as a part of the national expressway network and eventually join Colombo and Jaffna and then to the northern tip of the country. Under this Project, 10 packages were included to construct the Expressway for 191 kilometres in extent from Colombo to Dambulla with a link to proposed Kandy Expressway. The financial arrangement and the duration of the Project had not been finalized even as at 31 December 2014. However, the initial activities of the Project had been commenced out of the funds provided by Government of Sri Lanka.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and

the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and

- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

It was observed that 108 items of fixed assets had been transferred to the Project from other 03 Projects. The value of such assets as per financial statements amounted to Rs. 5.29 million was not agreed with the value of Rs. 3.8 million of the assets shown in the Register of Fixed Assets.

3. Financial and Physical Performance

3.1 Utilization of Funds

As stated in the paragraph 1.2 of this report, the activities of the Project had been commenced eventhough the financial arrangement was not finalized even as at 31 December 2014. The initial cost of the Project incurred for feasibility studies, land acquisitions and other operating costs etc. were met out of the advances amounting to Rs. 335.95 million made by the Road Development Authority.

3.2 Physical Progress

The activities of the construction of the Expressway commenced in January 2013 had been suspended temporally since August 2015.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that 05 contractors for the construction of Northern Expressway from Veyangoda to Galagedara under 04 packages, out of 10 packages had been selected by the Project under unsolicited contracts and the Ministers of Cabinet had approved the selections of the contractors on 12 November 2014. However, the activities of the contracts had not been commenced even after 08 months. As a result, the contracts had been terminated by the Project.
- (b) It was observed that the Project had taken actions to make changes to the initial scope of the Project including the changes of the road way and sections of the road etc, and renaming of the Project as Central Expressway Project. However, no action had been taken by the Project to obtain the approval of the Cabinet of Ministers for such changes.
- (c) It was observed that an international company had been selected by the Project under the direct contract method to carry out a feasibility study in three stages of the Northern Expressway from Enderamulla to Kurunegala at a cost of Rs.9.86 million. Later, the section of the Expressway from Enderamulla to Gampaha had been changed as Kadawatha to Gampaha. Therefore, the

feasibility studies carried out for that road section become obsolete and fruitless.

- (d) A sum of Rs.20.03 million had been incurred by the Project for the acquisition of lands of the Northern Expressway Project as at 31 December 2014. However, the details of the lands to be acquired by the Project had not been furnished for audit.