

Central Expressway Project -Section I - 2017

The audit of financial statements of the Central Expressway Project (Section I) for the year ended 31 December 2017 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

According to the decision of the Cabinet of Ministers arrived at its meeting held on 08 July 2015, the construction works of the Central Expressway are expected to be executed and implemented by then Ministry of Highways, Ports and Shipping, presently known as the Ministry of Highways and Road Development and Petroleum Resource Development and the Road Development Authority respectively. The construction works of the Expressway had been scheduled to implement under 04 sections. The activities of the Project were commenced on 29 December 2016 and scheduled to be completed by 31 August 2020. The observations on the constructions works of 36.59 kilometres of the Expressway from Kadawatha to Meerigama carried out under the Section -01 of the Project is contained in this report.

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 judgment, 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, except for the effects of the adjustments arising from the matters referred to in paragraphs 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards, and
- (b) the funds provided had been utilized for the purpose of which they were provided.

2.2 Comments on Financial Statements

2.2.1 Lack of Documentary Evidence

The compensation payments aggregating Rs. 2,832 million made during the year under review on acquisition of lands of the residents in 06 Divisional Secretariat Divisions of Gampaha district could not be satisfactorily vouched or accepted in audit, due to lack of necessary information and other details maintained at the offices of the Project Monitoring Unit.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the Budget Estimate-2017, an allocation amounting to Rs. 5,850 million had been made to implement the activities of the Project. In addition, a sum of Rs. 2,300 million had been transferred by the Road Development Authority during the year under review. However, only a sum of Rs 3,073.50 million had been utilized as at 31 December 2017, due to delays in timely disbursement of funds from the General Treasury and implementation of the process of land acquisition.

3.2 Physical Progress

The following observations are made.

- (a) According to the information received, the Project had taken action to enter into an agreement with a foreign construction company on 17 November 2014 to award the contract on construction works under the Section-03 of Expressway from Pothuhera to Rambukkana. However, the respective agreement had become null and void, due to delays in finding a suitable source of finance over a year. Further, as per the Cabinet Memorandum of 06 July 2015, it was decided to award an unsolicited contract of construction under the Section-01 of the Expressway from Kadawatha to Mirigama to the above mentioned contractor to compensate the cost incurred under Section-03 of the Expressway. Further, the contractor had not agreed to sign a Letter of Acceptance on the proposed contract agreement and as a result, the Interim Payment Certificates had not been accepted by the Project even as at 31 December 2017.
- (b) The contract for designing and construction supervision services had been awarded to a joint venture at a cost of Rs. 2,548.92 million under financial arrangements made with the local Licensed Commercial Bank and works of geotechnical investigations, designing of detailed structural designs and test piling etc had only been commenced at the end of the year under review.

3.3 Land Acquisition Activities

According to the information received, 5,159 plots of land including 939 plots of crown land were expected to be acquired under the Section - 01 of the Expressway and out of that 1,483 plots of lands had only been acquired and the compensation amounting to Rs 2,883 million had been paid as at 31 December 2017. However, the incentive payments aggregating Rs.14 million had been paid for the staff of Divisional Secretaries, Road Development Authority, Ministry of Land, Departments of Survey and Valuation etc., to expedite the process of land acquisition activities.

3.4 Human Resources Management

The key positions of the Project such as Resettlement Officer and Procurement Specialist had remained vacant as at 31 December 2017 and it affected for the smooth operations of the Project. However, the Project had recruited 03 Consultants without approval of the Department of Management Service and paid a sum of Rs. 1.10 million for the year under review.