

## **Extension of Southern Expressway Project – (Section 2) - 2017**

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The audit of financial statement of the Extension of Southern Expressway Project – (Section 2) for the year ended 31 December 2017 was carried out under my direction in pursuance of provisions in the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Loan Agreement No. PBC No.(2015) 38 Total No.(381) dated 07 April 2016 and No.(3408) dated 06 June 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China and Hatton National Bank of Sri Lanka.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreements of the Project, the Ministry of Higher Education and Highways, presently Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the Project is to have 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. The estimated cost of the extension of 26 km of Southern Expressway from Beliatte to Wetiya under Section - 02 of the Project amounted to 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 provided by the 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 Hatton National Bank of Sri Lanka. The activities under the Section -02 of the Project had been commenced on 28 October 2016 and scheduled to be completed by 27 October 2019.

### **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 the 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 the 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 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 followings.

- (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 and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreements had been complied with.

## **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 2017 and the 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,
- (b) the funds provided had been utilized the purposes for which they were provided,
- (c) the withdrawal applications submitted could be fairly relied upon to support the direct payments in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Fund

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Budgetary provision for the year 2017	Funds utilized	
	US\$ million	Rs. million		during the year 2017	up to 31 December 2017
	US\$ million	Rs. million	Rs. million	Rs. million	Rs. million
Export Import Bank of China	360.29	46,920	12,500	9,460.84	16,635.01
Hatton National Bank	63.58	8,280	-	2,878.79	2,878.79
GOSL	-	-	200	709.33	1,280.35
National Savings Bank	-	-	-	283.13	320.86
Sampath Bank	-	-	-	177.44	177.44
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<b>Total</b>	<b><u>423.87</u></b>	<b><u>55,200</u></b>	<b><u>12,700</u></b>	<b><u>13,509.53</u></b>	<b><u>21,292.45</u></b>

#### 3.2 Physical Progress

According to the progress report of the Project as at 06 August 2018, actual physical progress was remained at 46.25 per cent against the target of 50.89 per cent of the progress of the works. However, progress of construction of bridges and other structural works had remained slow compared with the expected targets appeared in the Action Plan.

#### 3.3 Contract Administration

The following observations are made.

- According to the sub clause 14.6 of the General Conditions of Contracts, the minimum amount of Interim Payment Certificate to be submitted by the contractor should be one per cent of the value of the contract. However, evaluation of Interim Payment Certificates less than the required threshold had been observed in 6 instances.
- Detailed studies on construction works had not been carried out before the commencement of works. According to the original designs made by the Consultants in September 2014, it was proposed to construct 07 underpasses, 05 overpasses, 15 bridges and 55 culverts in the Section –II of the Project. However, subsequent to the recommendations made by the Sri Lanka Land Development Corporation, the scope of the construction works had been significantly revised in March 2017, based on the hydraulic requirement and decided to construct 26 underpasses, 07 overpasses, 08 Bridges and 70 culverts.
- Though contractor shall obtain a performance security at his own cost for the proper performance of the contract as per the sub clause 4.2 General Condition of the Contract, it was observed that the Project had included a separate pay item No. 107(2) as provisional sum and Rs.209 million had been paid to the contractors for performance security as at 31 December 2017.