

Extension of Southern Expressway Project – Section III - 2017

The audit of financial statements of the Extension of Southern Expressway Project – Section III 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 read in conjunction with Loan Agreement No. PBC No (2014) 17 Total No. (520) dated 16 September 2014, entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then 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 was to develop the road network to support and facilitate the activities under the Hambantota International Hub Development. Therefore, the extension works of the Southern Expressway had been divided in to 04 sections and the construction works of 15 kilometres of the Expressway from Wetiya to Andarawewa had been carried out under the Section III of the Project. The estimated cost of the construction works under the Section III of the Project amounted to Rs. 36,174 million and cost of the civil works amounted to US\$ 252 million equivalent to Rs. 31,574 million was agreed to be provided by the Export Import Bank of China. The activities of the Project was commenced on 25 January 2016 and scheduled to be completed by 24 November 2018.

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 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 Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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 Agreement 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, except for the effects of the adjustments arising from the matters referred to in paragraphs 2.2 of this report, I am of the 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 for 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 Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

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 Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized	
	US\$ million	Rs. million		during the year under review	up to 31 December 2017
Export Import Bank of China	252	33,555.79	9,300	9,178	16,130
Government of Sri Lanka	-	2,618.20	100	681	1,146
Total	<u>252</u>	<u>36,173.99</u>	<u>9,400</u>	<u>9,859</u>	<u>17,276</u>

3.2 Physical Progress

The contract for the construction of the Expressway under Section III of the Project had been awarded on 05 February 2013 under unsolicited basis and the respective Loan Agreement had been signed with the Lending Agency on 16 September 2014. According to the information made available, the physical progress of the construction of the extension of the Southern Expressway from Wetiya to Andarawewa under the Section- III of the Project had remained at 49.77 per cent as at 31 December 2017 against the expected progress of 98.51 per cent as at that date. It was observed that the extension of time for 10 months from the scheduled date of the contract as at 24 January 2018 had been granted, due to delays in handing over of the site, problems in supply of construction materials and regular changes of the scope of works mainly under the earth works and construction of concrete underpasses, and bridges etc.,

3.3 Contract Administration

The following observations are made.

(a) According to the general condition 4.2 of the contract agreement, the selected contractor should submit the performance security bond within 28 days prior to the signing of the Loan Agreement. However, the contractor had submitted the performance bond on 07 December 2015 with delays of 423 days from the date of the signing of the Loan Agreement on 16 September 2014. Further, eventhough the cost

of the performance security bond is required to be borne by the contractor, a sum of Rs. 99 million incurred to obtain the performance security bond had been refunded to the contractor through an Interim Payment Certificate.

- (b) It was observed that a sum of Rs. 413 million had been overpaid to the contractor as mobilization advances, due to typographical error in computing of the advances, considering the items under the provisional sum and contingencies in the Bill of Quantities of the contract, contrary to the paragraph 5.4.4 (1) of the Government Procurement Guideline.
- (c) According to the sub clause 14.6 of the general condition of the contract, the Interim Payment Certificates on works done exceeding a sum of Rs. 315.74 million are required to be considered for evaluation purposes. However, the Interim Payment Certificates valued at a range from Rs. 191.85 million to Rs.299.21 million had been considered for evaluation purposes in 06 instances during the year under review.
- (d) It was observed that a proper ground surveys had not been carried out at the initial stages of the Project and as a result, 824,816 metric tons of ground soil had been excavated excessively and removed up to 31 December 2017, even though the estimated quantity of 1,651,700 metric tons expected to be removed from the sites of the construction of the Section –III of the Expressway. Further, the surveys on social impacts had also not been carried out and a sum of Rs. 635 million had been spent by the Project to construct extra concrete walls at the sides of the bridges from at 62+073 kilometres to 65+871 kilometres of the Expressway, due to public protests on unsafe living condition arisen on construction works carried out.
- (e) A private company involved in carrying out of laboratory tests on civil construction works had directly confirmed to the auditors that the reports issued on sonic logging tests had been issued with forged signatures and not undertaken the responsibility by the respective private company on validity of the reports. However, no action taken by the Project to investigate the matter and identify the responsible parties.

3.4 Human Resources management

It was observed that the key positions such Senior Geotechnical Engineer, Senior Traffic and Road Safety Engineer of the Project had remained vacant since the inception of the civil construction works, causing direct impacts on the smooth functioning of the activities of the Project.

3.5 Issues on Land Acquisition and Resettlement

It was observed that the Project had established 03 resettlement sites at Padalangala, Badigamtota and Wediwewa and a sum of Rs. 77.58 million had been spent for acquisition and development works thereon. However, the physical observation made at the sites had revealed that only 06 families, out of 35 families were occupied as at 30 June 2018 at the resettlement site at Padalangala, due lack of proper water supply facilities, land filling activities and delays in transferring of title deeds etc. Further, it was observed that the demarcation of plots of land had not been properly carried out at the resettlement sites.

3.6 Issues on Financial Controls

It was observed that 03 local Consultants had been deployed by the Project and allowances aggregating Rs. 975,000 had been paid during the year under review using the allocations made under the Bill of Quantities of the contract. Further, the salaries aggregating Rs. 1.78 million paid to 02 trainee Engineers had also been charged under the same allocation instead of being treated as the administration cost of the Project.