

Central Expressway Project – Section - I - 2018

The audit of financial statements of the Central Expressway Project – Section I for the year ended 31 December 2018 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 Program

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 Roads and Highways and the Road Development Authority respectively. The construction works of the Central Expressway had been scheduled to implement under 04 sections and the construction works of 36.59 km of Expressway from Kadawatha to Meerigama had been carried out under the Section I of the project. The objective of the Project is to ensure high mobility between regions by extending the existing expressway network by 36.59 km constructing an expressway from Kadawatha to Meerigama which increases safety, reduce travel time, traffic congestion, vehicle operation and maintenance cost and environmental pollution. The total estimated cost of the project is Rs.196, 174 million and the activities of the Project were commenced on 29 December 2016 and scheduled to be completed by 31 August 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intend to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

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 skepticism 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 Deficiencies	Impact	Responses of the Management	Auditor's Recommendations
	-----	-----	-----	-----
(a)	The accuracy and the completeness of the civil works stated in the progress report could not be ascertained in the audit, due to non-submission of the Interim Payment Certificates.	Understatement of assets and liabilities.	Agreed.	Actual cost incurred for the project and the liabilities need to be accounted.
(b)	Eventhough civil works of the project had been implemented since 26 December 2016, the expenditure on the civil works had not been shown under the work in progress of the project. As a result, actual asset and liabilities of the project had not been brought to the financial statements.	Understatement of assets and liabilities.	<p>The valid reasons are given below for non-accounting the cost of civil work.</p> <ol style="list-style-type: none"> 1.The Contractor has implemented the Preliminary work as per the agreement clause (5) with his own finance. 2.Consultant /Employer cannot certify the work done as the contract was not commenced. 3.As the commencement of the contract was not noticed. No work cannot be certified. 4.As per the clause (8) of the agreement, the notice to commence had not been issued. 	Actual cost of the project and the liabilities to be paid need to be accounted and brought to the financial statements.
(c)	Even though a sum of Rs. 2,193 million had been incurred for the feasibility study in respect to all four sections of the Central Express Way project, the relevant portion of that expenditure had not been apportioned in to this project. Therefore, the expenditure of the project had been understated by that amount.	Understatement of assets and liabilities.	We are waiting for instructions of the Ministry to account for relevant portion of this Expenditure for this Project.	Actual cost incurred for the project and the liabilities arisen need to be accounted.

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
-----		-----	-----	-----	-----
(a)	Circular No. 1/2016 dated 24 March 2016 of Department of Management Services.	Even though there should be an agreement or at least an assurance or certainty for receiving the funds from a donor at the time of implementing the project, the project had not followed such a process. As a result, the project is still in progress without having a donor for financing nearly 3 years. This situation will cause to a massive increase in cost of the project due to price escalations and additional overhead.	Unnecessary cost may incur for maintenance of project management unit without starting the construction.	The Loan agreement was signed on 22 March, 2019.	Circular instructions need to be followed and financing arrangement need to be made available at the time of implementing the Project.
(b)	Circular No. 06/2015 dated 29 December 2015 of the National Budget.	An action plan had not been prepared in order to identify the individual output. Further, the key performance indicators and a critical path for smooth function of the project activities had not been prepared for the year 2018.	Unable to evaluate the actual progress of the project and unnecessary delays and costs may incur.	Agreed. We noted. Soon we arrange to prepare an action plan for the year 2020 as per the instructions given in the circular.	Circular instructions need to be followed.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

Component	Audit observation	Impact	Response of the Management	Auditor's Recommendations
Designing of Expressway construction	The designing and construction supervision contract had been awarded to a joint venture company at a cost of Rs. 2,549 million under financial arrangements made with the Bank of Ceylon. However, geotechnical investigations, designing of detailed structural designs and test piling etc had only been commenced as at 31 December 2018.	Possibility to increase the cost of the project due to unnecessary delays.	Agreed.	Action should be taken to speedup designing works.

3.2 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a).	The contract of Package 1 and Package 2 had been awarded to a Chinese construction company on 20 June 2016 and 04 August 2015 respectively for Rs. 158,386 million based on the Cabinet Decision on 06 July 2015 without following the Procurement Guidelines.	Unevaluated to contract awarding may impair the quality of the project.	Since this was an unsolicited proposal, the principles of Procurement guideline Part - II had been applied to select the contractor.	Action should be taken to monitor the works of the contractor during the period of the construction.
(b).	Initially, project had signed the agreement with the Metallogical Corporation of China to construct the Section 3 of the Project from Pothuhera to Rambukkana. However, it had been cancelled being a void agreement as they were unable to provide loan within the agreed six-month period. Therefore, as per the Cabinet Memorandum No 15/1021/602/040 dated 06 July 2015	Unevaluated contract awarding may impair the quality of the project.	Since this was a unsolicited proposal, the principles of Procurement guideline Part - II had been applied to select the contractor.	Action should be taken to monitor the contractor's work during the construction.

issued by the Prime Minister office, procurement entity had awarded section 1 of the Central expressway project as a solution of settle the cost incurred by the contactor during the preliminary activities of the Section 3 without following the Procurement Procedures.

- | | | | | |
|-----|---|---|---|--|
| (c) | According to the information available, initially procurement entity had decided to carry out the construction of Package 1 from Kadawatha to Koshinna under the saving of OCH-3 and finally decided to complete Kadawatha Inter change and the 0.5 Km length from the package-1. However, it also had not been implemented due to the insufficiency of the saving of OCH-3. | Possibility to increase the cost of the project unnecessarily due to lack of planning of construction along with the financial arrangement. | Agreed. Implementation of the second proposal is pending until OCH 3 project fully completed. | Need to prepare a construction plan along with the expected financial arrangements. |
| (d) | According to the initial agreement, the Government of Sri Lanka intended to obtain a loan from the EXIM Bank of China for the implementation of the works, in the event the loan agreement is not signed between the Government of Sri Lanka and the EXIM Bank of China pertaining to the works on or before 365 calendar days from the date of signing the agreement, this contract shall automatically stand terminated. It was observed that, the agreement had been extended in 06 times for the package 01 and 08 times for package 02 due to expiry. However, the action had not been taken to mitigate such financial risk by the project. | Possibility to increase the cost of the project unnecessarily delays. | Since the loan agreement has been signed on 2 nd March 2019, there is no risk. | Action should be taken to evaluate the implementation of action plan along with the expected financial arrangements. |
| (e) | According to the contract law, to form a valid contract following 3 elements needed to be satisfied such as offer, acceptance and legally binding relationship. However, letter of acceptance had not been issued by the employer even as at 31 De- | Additional risk could be arise due to non-availability of Performance | Generally, Letter of acceptance is a primary agreement entered with the contractor and it is a part of the Contract agreement. It is more legal if the contract | Necessary action should be taken to obtain performance Bond as required in Conditions of contracts. |

ember 2018. As a result, agreements which were made and entered on 20 June 2016 and 04 August 2015 for package 1 and 2 respectively were not a valid contract agreements between the contractor and the Road Development Authority. Hence, the contractor had not been presented the Performance bond as required by form of Bid until end of the year 2018.

Bond.

agreement can sign directly skipping the Letter of acceptance. There is no requirement of Performance bond as there is no specific performance period.

(f) Although, the 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, the project had included a separate pay item in the Bill of Quantities contrary to the above requirement. As a result of extraneous expenditure, Rs.64 million and Rs. 741 million had been included in the Bill of Quantities for package 1 and 2 respectively. Therefore, it may result an undue advantage given to the contractor in future.

Undue advantage for contractors

Although condition of the contract says to obtain performance security at his own cost, the BOQ has provided a separate provision to bid by the Contractor. The reason behind the above concept is if the contractor does not allow to claim the cost of performance bond separately, he shall include in the rates which is hidden cost and the rates are abnormally high which cannot be negotiated.

Action should be taken to recover the over payment.

3.3 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
-----	-----	-----	-----
The Project had not prepared and issued a proper Terms of Reference (TOR) for the post such as Engineers, Development Officer, Resettlement Assistants and Management Assistants etc. working under the CEP-1. Therefore, their contribution to the project cannot be monitored.	Probable losses due to unskilled employees' involvement.	Already we have given list of duties to all staff when they appoint to the relevant posts. In future we hope to adopt a method to evaluate their performance and contribution given to the project.	Proper Terms of Reference need to be have and performance evaluation need to be carried out accordingly.