

## **Extension of Southern Expressway Project - Section 03 - 2018**

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The audit of financial statements of the Extension of Southern Expressway Project - Section 3 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.

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

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According to the Loan Agreements of the Project, then the Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The Extension of the Southern Expressway- Section 03, the total length is approximately 15 kilometres from Wetiya to Andarawewa. The main objective of the Project identified as one of the key components in the development of the road network to support and facilitate the activities of the Hambantota International Hub Development. The proposed Extension of the Southern Expressway had been divided in to four sections such as Matara to Beliatte (Section 01), Beliatte to Wetiya (Section 02), Wetiya to Andarawewa (Section 03) and Mattala to Hambantota via Andarawewa (Section 04). As per the Loan Agreements, the estimated cost of the Section 03 was Rs. 36,174 million and the estimated total cost of the civil works US\$ 252 million equivalents to Rs. 31,574 million which was agreed to finance by the Export Import Bank of China. The activities of the Project were commenced on 25 January 2016 and scheduled to be completed on 25 January 2018. However, the date of completion of activities of the Project had been extended up to 30 June 2019.

### **1.3 Opinion**

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

### **1.4 Basis for Opinion**

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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**

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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.

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

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

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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

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### 2.1 Accounting Deficiency

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<b>Accounting Deficiency</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Contrary to Sri Lanka Public Sector Accounting Standards No. 8, provision for interest payments had not been made on land acquisition as at December 2018.	Understatement of assets and liabilities.	The interest could not be identified due to delay the payment of Land Acquisition.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

**3. Physical Performance**

**3.1 Physical Progress of the activities of the Project**

<b>Auditor's Comment and observations</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) The construction works of the Expressway had been completed and handed over to the Road Development Authority on 09 July 2019 and opened for public use on 07 November 2019. However, the essential documents such as product warranty certificates, maintenance documents etc, of the used machineries had not been taken over by the Road Development Authority.	Unnecessary delay in submitting documents and machineries at the completion of the Project and will increase Project cost and lead to misuse of assets.	Agreed.	Proper monitoring procedure should be followed for the completion process of the Project.
(b) According to the information received, 353 items of civil works and 44 items of the common works of the Expressway, 234 items of civil works of 03 other connected roads to the Expressway and 190 items of civil works of connected buildings at Sooriyawewa and Wetiya had remained uncompleted at the time of issuing the taking over certificate on 09 July 2019.	Defect liability period will be considered from the date of taking over certificate. Therefore, possible defects during the defect liability period could not be recovered.	The Engineer at his discretion and in consideration of safety of the completed works issued TOC with a list of outstanding and defects, to be completed during the Defects Notification Period which were minor and require public consultation for completion otherwise to alleviate sensitiveness of the public in the area.	Necessary arrangement should be followed to speed up the balance works.

### 3.2 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The Expressway had been opened for public on 07 November 2019 after 5 months from the date of taking over and accordingly, the defect notification period will be expired on 11 June 2020 for the whole works of the Project. This situation caused to no defects arise within 05 months, due to non-availability of the road for public use.	Probable defects which will arise another 5 months after completion of defect notification period will be cost to the Government in future.	Opening of expressway to public has to be done after the Gazette publications under the National Thoroughfares Act by the Minister of Highways. This had taken 5 months by the RDA and the Ministry to follow the legal formalities with legal draughtsman and Government printing. Other than that government has taken a policy decision to open section 3 & section 4 together in order to proper functionality of the expressway.	Should consider the impact on this type of decision when implementing the projects.
(b)	According to the sub clause 14.3 of the conditions of contract, the Interim Payment Certificate valued at Rs. 474 million should be considered for the settlement purposes. However, the Interim Payment Certificates valued at a range from Rs.268 million to Rs.455 million had been settled in 07 instances, contrary to the above mentioned requirement.	Overrunning of cost on evaluation of Interim Payment Certificates.	The Engineer had recommended payments to the Contractor less than minimum value of Rs. 474 million in order to improve the Contractor's cash flow and maintain the progress of work. Certified amounts are colossal.	It is required to adhere with the thresholds stipulated in the condition of contract in order to minimize the costs, time and undue favouration for the contractors.

### 3.3 Observation made on site visit

No	Audit Issues	Impact	Response of the Management	Auditor's Recommendations
(a)	As per the requirement indicated under the Clause 401.7.1 of the Technical Specification, the International Roughness Index of the Expressway is required to be remained at a range of 1.5 –	May not comfortable enough for public travelling and maintenance cost of the vehicle of the public will	Measurement of IRI using Multi-Function Network Survey Vehicle is a proven method used worldwide to accept	Need to obtain expertise knowledge and consider measurement when preparing Technical specifications in

<p>2.3 metres per kilometre to ensure the roadworthiness and smooth running of motor vehicles in the Expressway. According to the tests reports, the respective Index had been achieved by the contractor. However, it was observed at the audit inspection that the smoothness of some of the sections of the Expressway was not comfortable enough to ensure the good running condition of the motor vehicles.</p>	<p>increase.</p>	<p>the riding quality of roads as specified. The IRI range indicated between 1.5-0.9 mkm in the audit report is of better riding quality than specified in Contract Specification Section 401.7.1. Hence there is no issue with this range of measurements.</p>	<p>future Projects.</p>
<p>(b) The audit inspection carried out on 26 September 2019 revealed that the major works such as installation of booth and lane cameras, toll barriers etc, had not been made at the interchanges in Sooriyawewa and Watiya.</p>	<p>Possible to increase whole cost of the project unnecessarily.</p>	<p>Toll barrier installation except ETC lane had been completed and booth camera fixing had been completed too. Data connection would be completed soon at Suriyawewa interchange.</p>	<p>Action should be taken to speed up the construction works.</p>
<p>(c) As per Memorandum of Understanding of 25 August 2016 entered into between contractor and Implementing Agency, the rehabilitation works of other roads of Pokuna Junction - Hataraman Junction Road and Nabadagaswewa – Andarawewa Road required to be completed as at 12 June 2019. However, the works had not been commenced even up to 27 September 2019.</p>	<p>Possible to increase whole cost of the project unnecessarily.</p>	<p>Asphalt surfacing within the expressway road limits had been completed and repairing of damage at other location is in progress.</p>	<p>Action should be taken to speed up the construction works.</p>

### 3.4 Unutilized/Underutilized Resources

No	Audit Issues	Impact	Response of the Management	Auditor's Recommendations
(a)	<p>Eventhough, Rs.10 million had been provided for vehicle type 02 (Petrol Car), as per the Original Bill of Quantity, it had purchased 2 vehicles on 26 September 2016 with the value of Rs.23 million by exceeding the provision of the BOQ. Out of those two vehicles, one vehicle valued at Rs.11.5 million without utilized for the Project activity had been transferred to the Working Director's office of RDA which is out of the scope of the Project. Presently, this vehicle is utilizing by the Ministry of Highways and Road Development. Further, observed that the same item was revised in the BOQ on 05 June 2018 subsequently.</p>	<p>Possible to misuse of funds.</p>	<p>This vehicle was temporarily transferred to the working director's office as per the instructions given by the Minister and informed to the chairmen of the Road Development Authority accordingly.</p>	<p>Action should be taken to recover the payments made.</p>
(b)	<p>The Project had been paid Rs.3.4 million as maintenance expenses for the same vehicle until 29 October 2018 by misusing the Project fund for the purchase and maintenance of vehicle which was not assigned to the Project.</p>	<p>Possible to misuse of funds.</p>	<p>It was reported that he has involved in negotiations with other organization, matters related to extension of southern Expressway project. Therefore this vehicle was maintained through the project.</p>	<p>Action should be taken to recover the payments made.</p>

### 3.5 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
<p>According to the feasibility studies of the Project, it was identified to construct service areas in the Expressway from Wetiya to Andarawewa. However, neither the action taken to design the service area nor make allocations in the Bill of Quantities of the Expressway to provide facilities for the users of the Expressway.</p>	<p>General public will be suffered by travelling long distance (173km) from Welipanna to Hambantota without having service area.</p>	<p>There is no BOQ provision in ESEP contracts for the construction of service area and this has to be undertaken from the Contract savings with concurrence from the Cabinet of Ministers and the China Exim Bank.</p>	<p>Action should be taken to facilitate Service area as soon as possible.</p>