

## **Extension of Southern Expressway Project - Section 4 - 2018**

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The audit of financial statements of the Extension of Southern Expressway Project - Section 4 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 Agreement 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 main objective of the Project is to have a link between the commercial city (Colombo) and newly constructed Sea Port (Hambantota) 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 25km of Southern Expressway from Mattala to Hambantota via Andarawewa under Section 4 of the Project amounted to Rs. 55,965 million and out of that US\$ 435 million equivalent to Rs.55,615 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance amount of Rs.350 million is expected to be financed by the Government of Sri Lanka. The construction works of the Project had been commenced on 19 January 2016 and scheduled to be completed by 19 January 2019 and subsequently extended up to 09 July 2019.

### **1.3 Qualified Opinion**

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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 Qualified 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

### 2.1 Accounting Deficiencies

No	Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a).	The provision had not been made for the interest amounting to Rs. 3.36 million needs to be paid on delay in settlement of compensation in land acquisition as at December 2018 in accordance with the Sri Lanka Public Sector Accounting Standards No 08.	Understatement of assets and liabilities.	The details will be obtained from the divisional secretaries and will include in the financial statements.	Provisions should to be made as per Sri Lanka Public Sector Accounting Standards 08.
(b).	Fixed assets valued at Rs.106.78 million included in the work-in-progress as at 31 December 2018 had not been shown separately under the non-current assets in the financial statements.	Non-current assets could not be recognized separately.	If these assets need to be accounted separately in the financial position additional cost are to be incurred for the professional valuation of these assets.	Cost of the assets need to be identify separately and shown under non-current assets.
(c).	According to the agreement, the contract has to pay in Sri Lanka Rupee and US Dollars. However, due to the payment made to the contractor by chinese RMB, a loss of Rs. 205.7 million had to be borne to the contractor. Although this loss could be reimbursed by the Project, it had not been disclosed in the financial statements.	Understatement of assets and liabilities.	Not given.	Provisions or disclosures need to be made as per Sri Lanka Public Sector Accounting Standards 08.

### 3. Physical Performance

#### 3.1 Contract Administration

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The land acquisition process was commenced on 21 May 2014 and scheduled to be completed on 19 November 2014. Eventhough, cumulative amount of Rs.4.1 million had been paid as incentives for the officers engaged in land acquisition process, the process had not been completed even by 31 December 2018. Further, it was revealed a sum of Rs.3.36 million as interest on compensation will have to be paid.	Possibility to increase the cost of the Project.	Land acquisition process commenced in April 2014 and the work in the project was suspended after the change in government in 2015 and recommenced in October 2015. Due to the complexity of some ownership determination in land acquisition process, decision of ownership was delayed. Further, funds were not released by the Treasury on time for land acquisition payments. Therefore, even for incentives, interest had to be paid.	Action should be taken to speed up the land acquisition process.