

Extension of Southern Expressway Project – Section I - 2019

The audit of financial statements of the Extension of Southern Expressway Project – Section I for the year ended 31 December 2019 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 the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to develop the road network to support and facilitate to the Hambantota International Hub Development activities. As per the Loan Agreement, the estimated total cost of the Project was US\$ 804.11 million equivalent to Rs.103,280 million and out of that US\$ 683.49 million equivalent to Rs.87,788 million was agreed to be financed by Export Import Bank of China. The balance amount of Rs.15,492 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 19 January 2016 and scheduled to be completed by 18 July 2019.

1.3 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 2019 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's 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 Project 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 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	Impacts	Response of the Management	Auditor's Recommendations
(a)	Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision had not been made for the delay interest need to be paid on land acquisition as at 31 December 2019.	Understatement of assets and liabilities.	Accepted	Relevant provision should be made as per Sri Lanka Public Sector Accounting Standards No.08.
(b)	The contractor had requested an amount of Rs.71.84 million and USD 3.9 million as the interest on delay in contractor's payment. However, calculated delayed interest amounting to Rs.608.66 million had not been either recognized or disclosed in the financial statements.	Understatement of assets and liabilities.	Accepted	Action should be taken to recognized and disclosed respective contingent liabilities in the financial statements as per Sri Lanka Public Sector Accounting Standards No.08.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
Eventhough the defect notification period and loan availability period expired on 08 November 2020 and on 25 October 2020 respectively, the project had initiated to construct a partial interchange at Kapuduwa which was not identified as a location to setup an interchange in feasibility study report. The construction proposal with the estimated cost of Rs.459.8 million had not been approved by the engineer up to audited date of 03 February 2021 and the construction initiated based on the decision made on the meeting held on 10 November 2020 by the Secretary to the Ministry of Highways.	Original contract cost could be less than the accomplished cost and later planning would have increased the cost of the contract.	The construction works of Kapuduwa partial interchange was completed at first week of month of April 2021. This work has been identified as an outstanding work at the time of issuing Taking over Certificate.	Action should be taken to provide the best outcome to the public at minimal cost by considering all aspects in future planning.

3.2 Contract Administration

The following observations are made.

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Although there is no BOQ provision had been made for the construction of a service area, two lands had been acquired. Further, after the 46 km of the Southern Expressway there were no any service area is available for the expressway users. Therefore, servicing the public when they are travelling for a 173 km from Welipanna to	Providing services to passengers travelling 176 km from Welipenna to	Required inputs have not been included in the Contract BOQ of ESEP 1. Therefore, construction of service area need to be implemented under separate funding arrangement.	Required provisions should be arranged for the construction of service areas for the Southern Expressway Extension Project.

Hambanthota is questionable.

Hambantota was in a problematic situation.

- (b) It was observed that, 248,419 m³ quantity of excess soil had been stocked at the service area at the end of the constructions of the Project. However, there were no any plan for the utilization of those excess soil for the project or Road Development Authority.
- Possibility to misuse of soil.
- These excess soil quantity has been stocked pile at Gatamanna area within the ROW. It is expected that the Road Development Authority will utilize these soil for future projects to be executed in the nearby areas.
- Action should be taken to utilize these soil for a specific project.
- (c) According to the decision of the Dispute Adjudication Board, the contractor was entitled to a unit rate of Rs.16,873 for spun piles and interest on account of the shortfall in payments made on interim payment certificates due to appropriate method of ground improvement had not been decided at the detailed designing stage. Accordingly, a sum of Rs. 71.26 million had been paid to the contractor and out of that Rs. 1.87 million which paid as delayed interest which is an additional cost to the project.
- Possibility to incur additional cost to the Project.
- As per the Sub-Clause 20.2 of GCC, Dispute Adjudication Board was constituted in the Project. Accordingly, relevant payments has been made to the Contractor as directed in the decision given by DAB and amicable settlement committee.
- Correct decision should be taken at the right time to avoid unnecessary costs.
- (d) Due to the vague definition in the contract documents and the engineer's instruction to the contractor which is a variation to the given specification relating to the class of concrete for piling work and structural elements other than piling, the Project had paid an additional payment of Rs.129.11
- Possibility to incur additional cost to the Project.
- As per the Sub-Clause 20.2 of GCC, Dispute Adjudication Board was constituted in the Project. Accordingly, relevant payments has been made to the Contractor as
- Conditions should be clearly defined in the Contract documents.

million to the contractor which was the increase in cost and interest for delayed or denied payments based on the decision of Dispute Adjudication Board.

directed in the decision given by DAB and Amicable Settlement Committee.

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| <p>(e) Eventhough the facility buildings had been constructed on permanent base with a value of Rs.185 million, an initial plan on the expected use of those buildings at the end of the Project had not been decided. Further, a proper plan for the expected use of buildings had not been finalized even by the date of audit on 05 February 2021.</p> | <p>Possibility to misuse buildings in future.</p> | <p>Two buildings were allocated for the establishment of the office of the Additional Director (Construction) are required to hand over the Expressway Management Unit of RDA to establish their offices and provide accommodations for Police and Special Task Force.</p> | <p>When constructing permanent buildings for the project activities, there should be an initial plan of the intended use of those buildings at the end of the project.</p> |
| <p>(f) The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance security, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance guarantee at cost of respective contractor. Accordingly, a sum of Rs. 322.8 million had been paid additionally up to the 31 July 2020 by exceeding the BOQ value by Rs.97.8 to the contractors to reimburse the cost of performance security bonds.</p> | <p>Undue advantage for contractors.</p> | <p>This item was included as a provisional sum. Therefore, intention of the Employer was to make a payment for the purpose of providing Performance Security.</p> | <p>The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee before issuing the bidding documents.</p> |