

## **Extension of Southern Expressway Project – Section I - 2018**

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The audit of financial statements of the Extension of Southern 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 read in conjunction with provisions in the Loan Agreement No. PBC No. (2014) 27 Total No. 321 dated 23 December 2014 and No. PBC No. (2014) 27 Total No. 321A(1) dated 11 December 2015, entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China. 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**

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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**

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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 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	Response of the Management	Auditor's Recommendations
(a)	Provision for interest payable Rs.99.41 million on delays in settlement of compensation as at 31 December 2018 had not been made in the financial statements.	Action will be taken to rectify this error in the Financial Statement for the year 2019.	Provision should be made as per Sri Lanka Public Sector Accounting Standards No.08.
(b)	Fixed assets valued at Rs.492.89 million included in the work in progress had not been separately identified in the financial statements of the Project.	Action will be taken to disclose above items in the financial statements of the year 2019.	Action should be taken to show the actual construction cost in the financial statements.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

Audit Issue	Responses of the Management	Auditor's Recommendation
The Project had commenced its activities on 19 January 2016 with delays by 26 months and overall physical progress of the project had been remained at 87 per cent as at 31 December 2018 against expected targets of 93 per cent as at date. According to the progress reports submitted by the consultant, slow progress ranging from 0 per cent to 40 per cent had been observed on 21 items of the Bills of Quantities, due to delays in acquisition of land and preparation of detailed design works by the contractor. Further, construction of 110 no of roads at an estimated cost of Rs.1,283 million to be constructed to the villagers who lost their access facilities, due to construction of Expressway had not been commenced even up to 31 December 2018.	The Project had been commenced 26 months delay from the date of signing the Contract agreement. However, commencement date shall be fixed after the signing of the loan agreement and accordingly, the commenced date of the Project was fixed as 19 January 2016.	Action should be taken to expedite the balance rehabilitation works of the roads.

### 3.2 Contract Administration

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The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendation
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(a).	The Engineers Estimate of the Southern Expressway was Rs.85,530 million but it was awarded at a cost of Rs.103,280 million and later it was revised as Rs.113,589 million. Further, the cost of via duct and bridges was estimated for Rs.39,937 million had been increased to Rs.58,725	The original contract sum has been increased by 10 percent due to the all unforeseen ground conditions encountered at detailed investigations, additional quantities identified at detailed designs and new scope of works implemented based on site requirements.	Bill of quantities should be prepared only with minimal deviations.
(b).	According to the information received, it was scheduled to be acquired 4,790 plots of land including 1,406 plots of crown land. Out of that the compensation amounting to Rs.2,636.20 million had been paid for Rs.4,098 plots of land as at 31 December 2018. Further, the interest amounting to Rs.11.80 million had been paid during the year under review, due to delays in settlement of compensations. In addition to incentive and other expenses aggregating Rs.30.7 million had been incurred to expedite land acquisition process during the year 2018.	Due to the complexity of some ownership evaluation, temporary suspension of the work, and delays in released of the funds from the Treasury caused to the delay in the process.	Action should be taken to expedite the land acquisition process.