

## **Extension of Southern Expressway Project - Section 2 - 2020**

The audit of financial statements of the Extension of Southern Expressway Project – Section 2 for the year ended 31 December 2020 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, then Ministry of Ports and Highways, presently the Ministry of Transport 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 provide a link between the proposed Hambantota International Development Hub project, commercial capital, Hambantota International Harbor and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota. As per the Loan Agreement, the estimated cost of the extension of 26 km of Southern Expressway from Beliatte to Wetiya under Section - 02 of the Project amounted to Rs.60,601.60 million and out of that 85 per cent of the cost of US\$ 360.29 million equivalent to Rs. 46,920 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance 15 per cent of US\$ 63.58 million was agreed to be financed by Hatton National Bank of Sri Lanka. The activities under the Section - 02 of the Project had been commenced on 28 October 2016 and scheduled to be completed by 27 October 2019.

### **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 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified 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.

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

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 Recommendation
(a).	The provision had not been made for the delayed interest required to be paid on land acquisition as at 31 December 2020, as per the Sri Lanka Public Sector Accounting Standards No 08,	Execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 02 project office was not delegated with any financial authority for land acquisition.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

- (b). The unsettled retention amounting to Rs.9.09 million shown in the statement of financial position couldn't be verified during the audit, due to a register had not been maintained for the retention on land acquisition for the project. Execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 02 project office was not delegated with any financial authority for land acquisition. Register required to be maintained for the retention on land acquisition for the project.
- (c). Eventhough a financial charges of Rs.31.65 million will have to be paid to the contractors on delay in payment for the certified interim payment certificate as per sub clause 14.8 of the General Condition of the Contract, the probable liability had not been either recognized or disclosed in the financial statements. It is noted to recognize this liability in winding up financial statements. Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.
- (d). The cash inflows and outflows relating to operating and investing activities had not been identified, as per Sri Lanka Public Sector Accounting Standard No. 02. Agreed. Cash flow statement need prepared as per Sri Lanka Public Sector Accounting Standard No. 02.

## 2.2 Non-compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-compliances	Responses of the Management	Auditor's Recommendations
(a)	Section 21.4 of the Particular Conditions of the Contract	Equipment, machinery, vehicles, materials, all accessories and all other consumables to be used in the civil works, imported by the contractor will be exempt from customs duties and those items should be re-exported at the end of the project by the contractor. However, although the project had substantially completed on 25 February 2020 and therefore the defect notification period was also completed on 24 February 2021, it was observed that imported items under 02	The process of recovery of duties and taxes delayed, due to the impact of COVID 19 pandemic. However, it is noted to take necessary actions to expedite the process.	Necessary actions should be taken to expedite the process.

invoices out of 66 invoices only had been re-exported as at audited date of 09 November 2021.

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| (b) | Sub Clause 4.2 of the General Condition of the Contract. | A separate pay item had been made in BOQs under road rehabilitation works by allowing contractors to recover the cost of providing Performance Securities without recovering performance security cost from the respective contractor. Accordingly, a sum of Rs. 455 million had been paid additionally to the contractor to reimburse the cost of performance security up to 31 December 2020. Further it was observed that the above payment is exceeding the BOQ provision by Rs. 230.17 million and gave undue advantage to the contractor. | The COC states that the Performance Security shall be provided at his own cost means that the submission of Performance security is a prerequisite to enter into a Contract between the parties after which the Contractor will be entitled to recover the cost of Performance Security under PS item 107(2) of the Contract BOQ. The actual cost of providing the PS had increased due to the subsequent extension of time for the Contract completion. | The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents. |
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### 3. Physical Performance

#### 3.1 Progress of the Land Acquisition Process

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Eventhough the land acquisition process was started in the year 2014 and incentives aggregating Rs. 14.82 million had been paid to the officers of Ministry of Survey Department, Valuation Department and Divisional secretariat office to expedite and complete the land activities within 26 weeks, the land acquisition process is still in progress.	Execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 02 project office was not delegated with any financial authority for land acquisition.	Necessary action should be taken to speed up the land acquisition process.
(b)	Though Rs.1,868.69 million had been paid as compensation on land acquisition and Rs. 145.65 million as delayed interest as at 31 December	Execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 02 project office was	Necessary action should be taken to speed up the land acquisition process.

2020 respective details of number of plots of land had not been made available for the audit. not delegated with any financial authority for land acquisition.

- (c) Although 2,884 plots of lands extended 245.1147 hectares had already been acquired as at 31 December 2020, the project had able to transfer the procession only 18 blocks extended 3.0152 hectares of such lands to Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even at the end of the year under review. Execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 02 project office was not delegated with any financial authority for land acquisition. Necessary action should be taken to speed up the land acquisition process.

### 3.2 Contract Administration

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
<p>Although two locations of Service Area had been mentioned in Chapter 8.33 of the Feasibility Report, it had not been estimated and BOQ provisions had not been made to construct service areas for whole Extension of Southern Expressway. Hence, after the 46 km of the Southern Expressway there were no any service area is available for the highway users.</p>	<p>None of the ESEP Contract BOQ has made provisions to construct the service area through the civil works Contracts at the conceptual stage.</p>	<p>Action should be taken to facilitate service area.</p>