

Extension of Southern Expressway Project – Section 3 - 2020

The audit of financial statements of the Extension of Southern Expressway Project – Section 3 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 Agreements, then the Ministry of Higher Education 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 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 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 Sri Lanka Public Sector Accounting Standards No 08.	Land acquisition compensation payment was done by the Senior Project Director’s office and ESEP Section 03 project office was not delegated with any financial authority for land acquisition. Therefore, provision has not been made in the financial statements.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

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| (b) | Though the construction works of the expressway had completed, work in progress balance amounting Rs.40,994 million had not been transferred to the Completed works even up to 31 December 2020. | It is noted to take necessary actions to transfer the work in progress balance to completed works. | Assets should be recognised in line with Sri Lanka Public Sector Accounting Standard 01. |
| (c) | Though the Note 2.4 to the financial statement mentioned that the project had been completed and settled all outstanding balances, a sum of Rs.14.51 million had been shown as unsettled balances in the financial position as at 31 December 2020. | Not commented. | All the liabilities need to be recorded in the financial statements. |
| (d) | A provision had not been made for the commitment charges on remaining balance of loan of CNY 27,586,539 as at 31 December 2020. | Not commented | Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08. |
| (e) | 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. |

3. Physical Performance

3.1 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	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	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 is subsequently entitled to claim the cost of Performance Security under LS item of the Contract BOQ.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

obtain performance guarantee at cost of respective contractor. Accordingly, a sum of Rs. 99.37 million had been paid additionally to the contractors to reimburse the cost of performance security bonds.

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| (b) | 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. | None of the ESEP Contract BOQ has made provisions to construct the service area through the civil works Contracts at the conceptual stage. | Action should be taken to facilitate service area. |
| (c) | It was observed that a sum of Rs.3.5 million had been paid to the Road Development Authority as overhead expenses for salaries of RDA staff by the project. | Not commented. | Action should be taken to stop charging additional overhead cost from the projects. |

3.2 Delay in Land Acquisition Process

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Eventhough the land acquisition process started in the year 2014 and incentives aggregating Rs. 13.5 million had been paid to the officers of Ministry of Survey Department, Valuation Department and Divisional secretariat office to expedite and complete the land acquisition activities within 26 weeks, the land acquisition process is still in progress.	Acquiring bank loans for payment of land acquisition cost, payment of compensation, allocation of funds for land acquisition of each ESEP section and execution of all land acquisition related works were carried out in the SPD's office. Accordingly, ESEP Section 03 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) According to the information received, 3,029 plots of land were expected to be acquired by the Project. Out of that, Rs.1,108.61 million had been paid as compensation for 2,182 plots of land and Rs.74.2 million had been paid as delayed interest only for 769 plots of land as at 31 December 2020. Further, the project had failed to register any plots of land under the Road Development Authority as per Sub Clause 44 of the Land Acquisition Act even as at 31 December 2020.

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Necessary action should be taken to speed up the land acquisition process.