

## **Extension of Southern Expressway Project – Section I - 2020**

The audit of financial statements of the Extension of Southern Expressway Project – Section I 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, 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 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

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No	Accounting Deficiencies	Response of the Management	Auditor's Recommendations
(a)	The provision had not been made for the delay interest required to be paid on land acquisition as at 31 December 2020, as per Sri Lanka Public Sector Accounting Standards No 08.	Accepted.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.
(b)	An amount of Rs.3.56 million had been shown under cancelled cheque payable under current liabilities. However, documentary evidences had not been furnished to the audit to verify this balance.	Proper answer will be provided.	Cancelled cheques need to be identified and accounted with documentary evidences.
(c)	The consultant had certified that an amount of Rs. 574.27 million as the claim on delayed interest as per Sub Clause 14.7 and 14.8 of General Conditions of Contract, due to non-payment of all interim payments certificates	Accepted.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

on due dates. However, a provision had not been made for such payment in the financial statement for the year under review.

- (d) The differences of Rs.35.24 million and Rs.49.48 million were observed between financial statements and the details submitted by the project as at 31 December 2020 on the statutory compensation payments and statutory interest payments respectively. Proper answer will be provided. Updated information need to be maintained related to land acquisitions.
- (e) According to Sub Section 2.7 of the Article 2 of the loan agreement for the Contract, the borrower should pay commitment fee to the lender on the undrawn and uncanceled balance of the loan facility. However, the project had not been made a provision for commitment charges against remaining balance of loan amount of US\$ 19.51 million for civil works and US\$ 61.08 million for Supervision Consultancy as at 31 December 2020. As General Treasury had not informed the amount of commitment fee paid or to be paid on behalf of the Project as at the date of 31 December 2020, a provision was not made in the Financial Statement for the year 2020. Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

### 3. Physical Performance

#### 3.1 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Though the loan availability period expired on 25 October 2020, payment for civil works had not been finalized even up to end of October 2021. Further noted that, Rs.4,045 million supplementary allocation had been approved for the year 2021 and it had not been paid the final bill for the construction even up to 31 October 2021.	Required time period for competing the contractual matter was to be completed before 30 April 2021. The COVID -19 pandemic situation severely affected for the completion of above steps.	Necessary action should be taken to speed up the finalization of final bill of the construction in future contracts.
(b)	The Project had denied the contractor's entitlement for custom duty concession for 04 Toyota fortuna vehicles, 1 Mercedes Benz van and 10 Pickups for the use of transportation of officers due to the contractor had imported those vehicles without having the prior approval from the	As per the Sub-Clause 20.2 of GCC, Dispute Adjudication Board (DAB) was constituted in the Project. Accordingly, relevant payments have been made to the Contractor as directed in the decision given by DAB and amicable settlement committee (ASC).	Action should be taken to minimize additional cost by making right decision on right time.

employer. However, later on the Project had to reimburse excise duty of Rs.91.74 million paid for 02 Toyota fortuna vehicles and 10 Pickups to the contractor and also paid Rs.27.55 million as interest for delayed payment based on a decision of the Dispute Adjudicatory board (DAB) on 23 April 2018. As a result of the above decision which made favorably to the contractor and a sum of Rs.119.3 million had been incurred as additional cost by the project.

- (c) Though the land had been acquired for a service area at Gatamana to construct a service area as per the Chapter 8.33 of the Feasibility Study Report, it had not been estimated and no BOQ provisions had been made to construct service area. Further, after the 46 km of the Southern Expressway there were no any service area is available for the expressway users.
- Even though the proposed service area was not included in preliminary drawings, it had been included in the acquisition plans issued in year 2014 which resulted for acquisition of required land for construction of service area at Gatamanna at Ch. 22+700km to 22+900km. Therefore, construction of service area needs to be implemented under separate funding arrangement.
- Action should be taken to facilitate service area as soon as possible.
- (d) Though, the Sub-Clause 20.6 of General Conditions of Contract mentioned as arbitration may be commenced prior to or after completion of the works, a particular time period has not been specified even in the Particular Conditions of the Contact to commence the arbitration after the issuance of notice of dissatisfaction. Therefore, 5 disputes claims amounting Rs. 2,396.7 million are still open for arbitration after issuance of Notices of Dissatisfaction and the entitlement for the contractor could not be finalized even after expiry of 12 months from the completion of defect notification period of the Project and also thus the discharge letter had not been issued by the contractor even up to 31 October 2021.
- There is no any time limitation for referring a dispute to the arbitration in accordance with the Condition of Contract. However, as per the Sub-Clause 14.12 of GCC, the Contractor shall submit a written discharge which confirms that the total of the Final Statement represents full and final settlement of all moneys due to the Contractor under or in connection with the Contract.
- After issuing a notice of dissatisfaction, a specific time limit should be included in the Specific conditions for the commencement of the arbitration.

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| (e) | <p>The separate pay items had been made in the Bill of Quantities of road rehabilitation works by allowing contractor to recover 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 million to the contractors to reimburse the cost of performance security bonds.</p> | <p>In the Contract BOQ, allow for cost of providing Performance Security and all other necessary bonds have been given under Pay Item 107 (2). 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> |
| (f) | <p>Though the land acquisition processes commenced in the year 2014 and Rs.29.67 million had been paid as incentives for officers to expedite the process, the land acquisition process had not been completed even as at 31 December 2020. It was observed that, an amount Rs.3,666.8 million had been paid as compensation for 2120 lots of land and Rs.275.5 million as delayed interest for 920 lots of lands as at 31 December 2020.</p>   | <p>Proper answer will be provided.</p>  | <p>Necessary action should be taken to speed up the land acquisition process.</p>  |