

## **Extension of Southern Expressway Project – Section 4 - 2021**

The audit of financial statements of the Extension of Southern Expressway Project – Section 4 for the year ended 31 December 2021 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 of the Project, 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 main objective of the Project is to have a link between the commercial city (Colombo) and newly constructed Sea Port (Hambantota) and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota. The estimated cost of the extension of 25km of Southern Expressway from Mattala to Hambantota via Andarawewa under Section 4 of the Project amounted to Rs. 55,965 million and out of that US\$ 435 million equivalent to Rs.55,615 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance amount of Rs.350 million is expected to be financed by the Government of Sri Lanka. The construction works of the Project had been commenced on 19 January 2016 and scheduled to be completed by 19 January 2019 and subsequently extended up to 09 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 2021 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	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	The expenditure incurred for payment of salary for the staff of the Project Management Unit for the period from 01 January 2021 to 30 April 2021 had not been accounted under the financial statements as at 31 December 2021.	1.1	It has been decided to close the PMU by 31-12-2020 and accordingly, the instructions had been issued Director General-RDA to pay the salaries of essential project staff.	Total cost of the expressway should be accounted under the project cost.

(b) Contrary to Sri Lanka Public Sector Accounting Standards No 08, delayed interest required to be paid on compensation of land acquisition had not been accounted in the financial statements as at 31 December 2021.	5.26	Land acquisition payments of the project were handled by the SPD office and after the closure of SPD Division; the Land acquisitions have been transferred to the Land division of RDA. Therefore, the liability mentioned in this para has not been recorded in the project's final accounts.	Provisions should be made as per Sri Lanka Public Sector Accounting Standards 08.
(c) Eventhough the Project had prepared the cash flow statement under the indirect method, increase in accrued expenses and work in progress of Rs.36.56 million and Rs.41.72 million respectively had not been presented accurately in the cash flow statement in accordance with the Sri Lanka Public Sector Accounting Standard No 02.	78.28	Agreed.	Cash flow statement should be prepared as per Sri Lanka Public Sector Accounting Standard No. 02.
(d) According to the financial statements, assets valued at Rs.72.82 million had been transferred to the Road Development Authority (RDA). However, the costs of the assets transferred to RDA had not been included in the schedule submitted to the audit. Therefore, assets transferred to RDA amounting to Rs. 72.82 million stated in the financial statements could not be verified.	72.82	Those assets have been already transferred to the RDA.	The assets transfer schedule should be submitted to audit.
(e) According to the schedule submitted to audit, some of assets such as furniture and computer equipment had been transferred to the Central Expressway Project- Section III and Ruwanpura Expressway Project. However, the value of those assets had not been shown separately in the financial statements.	-	Agreed.	Value of the assets transferred should be included in the schedules to verify the balances.

### 3. Physical Performance

#### 3.1 Progress of the Land Acquisition

The following observation is made.

<b>Audit Issues</b>	<b>Responses of the Auditor's Management</b>	<b>Auditor's Recommendations</b>
Though the land acquisition processes commenced in the year 2014 and incentives aggregating Rs.4.61 million had been paid for the officers to expedite the process, the land acquisition process had not been completed even as at 31 December 2021. Accordingly, it was observed that delayed interest are still to be paid for 174 plots of land. Further, out of 12,894 plots of land, only 1,010 plots of land had been registered under the Sub Clause No.44 of the Land Acquisition Act as at 31 December 2021.	The land acquisition works are now handled by the RDA- Land division and the necessary steps have been taken to comply with sub- cluse 44 of the Land Acquisition Act.	Necessary action should be taken to speed up the land acquisition process.

#### 3.2 Contract Administration

The following observations are made.

<b>No</b>	<b>Audit Issues</b>	<b>Responses of the Auditor's Management</b>	<b>Auditor's Recommendations</b>
(a)	A sum of Rs.430.96 million had been paid as commitment fee as specified in the Article No. 2.3 and 2.8 of the loan agreement for the period from March 2016 to March 2021 on undisbursed amount of the loan by the General Treasury.	Agreed.	All the liabilities should be recorded in the financial statements and action should be taken to minimise the commitment fee for the future contracts.
(b)	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 a cost of respective contractor. Accordingly, a sum of Rs. 201.27 million had been paid additionally up to 31 December 2021 by exceeding the BOQ value by Rs. 12.6 million to the contractors to reimburse the cost of performance security bonds.	Agreed. It will be corrected not to include a separate BOQ item for the performance security reimbursement or payment for the future contracts.	The review of Bill of Quantities should be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

(c) According to the Sub Section 1.10 of the Special Conditions of Contract for consultancy services of the Project, in case of corporate tax, reimbursement will be done through a Provisional Sum item, if proof of payment to the Inland Revenue is submitted. Due to inclusion of such unfavorable conditions in the consultancy agreement, the corporate tax claimed by the Consultant amounting to Rs. 36.56 million had been shown as a liability in the financial statements as at 31 December 2021 and it may have to be bear by the government in future.

Agreed.

The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents to minimise undue benefits to the contractors.