

Central Expressway Project Section-I - 2021

The audit of financial statements of the Central Expressway Project Section-I 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 read in conjunction with Section 4.6 of Article 4 of the Loan Agreements No. (2018) 17 Total No.(474) dated 22 March 2019 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

According to the Loan Agreement, then Ministry of Highways, Road Development and Petroleum Resources Development, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to ensure high mobility between regions by extending the existing expressway network by 36.98 km constructing an expressway from Kadawatha to Meerigama which increases safety, reduce travel time, traffic congestion, vehicle operation and maintenance cost and environmental pollution. The total estimated cost of the Project amounted to US\$ 1,299.29 million equivalent to Rs. 176,785 million and out of that US\$ 989.45 million equivalent to Rs. 134,628 million was agreed to be financed by Export-Import Bank of China. The balance amount of US\$ 309.83 million equivalent to Rs.42.157 million is expected to be financed by the Government of Sri Lanka. The activities of the Project were commenced on 15 September 2020 and scheduled to be completed by 14 September 2024.

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

The following observations are made.

No	Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a)	Eventhough a sum of Rs.2,193 million had been incurred for the entire feasibility study of the Central Expressway Project, the relevant portion of that expenditure had not been apportioned in to this Project and therefore, the expenditure of the project had been understated by that amount.	Action will be taken to account that amount in the year 2022.	The relevant potion of the expenditure should be accounted as expenditure of the Project

- (b) Although all funding sources should be presented under net assets/equity in the financial position as per Sri Lanka Public Sector Accounting Standards No.01, the funds received from the Road Development Authority amounting to Rs.150 million had been shown under the current liabilities in the financial statement as at 31 December 2021.
- The Funds received from the Road Development Authority amounting to Rs.150 million had correctly taken into accounts and also the net effect had been adjusted in the accounts. However, this adjustment is not materially distorted the financial position.
- Funding sources need to be accounted as per Sri Lanka Public Sector Accounting Standards No.01.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The contract of Package 01 from Kadawatha to Kossinna was signed on 20 June 2016 and the commencement of work was delayed until 15 September 2020. Further, the expected completion date of the contract will be 14 March 2023. Although 15 months over from the commencement date as at 31 December 2021, the actual physical progress is only 15.07 per cent out of the target of 30.53 per cent.	It was observed a decrease in physical progress in both packages mainly due to infection of COVID to the staff of the contractor, continuously lock downs of the country, difficulties in contacting the relevant parties in land acquisitions, shortage of materials, difficulties of importing various items for construction works, public protests and flood condition caused by bad weather etc.	All efforts should be taken to achieve targeted progress to smoothly completion of the project.
(b)	The contract of Package 02 from Kossinna to Meerigama was signed on 04 August 2015 and the commencement of work was delayed until 15 September 2020. Further, the expected completion date of the contract will be 14 September 2024. Although 15 months over the commencement date as at 31 December 2021, the actual physical progress is only 20.54 per cent out of the target of 30.46 per cent.	It was observed a decrease in physical progress in both packages mainly due to infection of COVID, to the staff of the contractor, shortage of materials, difficulties of importing various items, public protests and flood condition etc.	All efforts should be taken to achieve targeted progress to smoothly completion of the project.

3.2 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The approval had been granted to offer the contract of Central Expressway Section I at a cost of Rs. 158,386 million to China Metallurgical Group Corporation (MCC) under Cabinet Decision Number 15/1021/602/040 dated 16 July 2015 contrary to the Procurement Guidelines due to inability of paying the expenses incurred under the Construction of Package 04 and Package 07 of the Northern Expressway.	That decision was taken upon the recommendation given by the committee appointed by the Cabinet sub-committee on Economic Affairs in consultation with the General Treasury.	Accepted procurement methods should be followed to maximize the economic benefit to the Government.
(b)	The funds for the civil work of the Project are providing by EXIM Bank of China as a loan signed on 21 March 2019. However, proceeds of the loan had not disbursed until 31 December 2021. As a result of this delay, the price fluctuations of Rs.470.62 million on package 01 and package 02 have to be paid to the contractor as at 31 December 2021.	Due to delay in payment of mobilization advance, this delay has caused to settle the IPC's and the Contractor claimed price fluctuations occurred during that period.	Fund arrangement should be streamline before commencement of the Project to avoid additional cost to the Project.
(c)	Although, the contractor shall obtain a performance security at his own cost for the proper performance of the contract as per the sub clause 4.2 General Condition of the contract, it was observed that the Project had included a separate pay items in the Bill of Quantities contrary to the above requirement. As a result, an aggregate amount of Rs.805.43 million for both packages had been paid and it may result in an undue advantage for the contractor.	If the contractor is not allowed to claim the cost of Performance Bond separately, he has an opportunity to include in the rates which make the rates abnormally high and the total cost of the contract would increase.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.
(d)	An agreement was signed on 14 March 2017 with Sri Lanka Land Reclamation and Development Corporation (SLRDC) for a sum of Rs.4.5 million to conduct a Hydrology Study for Pilot Road and a sum of Rs.2 million was paid as an advance payment on 24 July 2017. Although the	Since the final report has not been submitted to the project office by the SLLRDC as per the clause 10.5. II. of the agreement, the balance payment could not be able to settled.	The hydrology Study should be completed within the stipulated time period as per the agreement.

contract period is 24 months and it was lapsed by more than 2 years as at 31 December 2021, the final report had not been received to the Project.

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| (e) | Although the actual payments for pay items in Interim Payment Certificates should not be exceeded the BOQ value of those items, it was observed that some payments under civil works had exceeded the BOQ provisions and the approvals of such variations had not been furnished to the audit. | The relevant procedure has started to get the approval for those variations. | Action should be taken to control the expenditure within the BOQ provisions to prevent the financial burden. |
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3.3 Delays in Land Acquisition Process

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The project had implemented a special land acquisition process to reduce the land acquisition duration to 26 weeks from 72 weeks. Further, although initially, the land acquisition process had been planned to complete on 15 December 2016 as per Project Time Schedule, such process had not been completed even the date of audit on 20 May 2022.	The balance activities of the land acquisition process had scheduled to be acquired before 30 March 2022 and private land plots of 4,210 were acquired as at 30 March 2022.	The land acquisition process should be completed within the stipulated time period to smooth the functioning of the Project and the incentive scheme should be re-evaluated.
(b)	Although out of 4,210 plots of private lands already acquired from the total plot of 6,733 lands planned to be acquired as at 31 December 2021, title investigations for 89 private land plots had not been done even as at 31 December 2021, and the reasons for the delay were not revealed to the audit.	The private land plots of 4,210 had been acquired as per the schedule and investigations for 89 Land plots also had done before the scheduled date of 30 March 2022.	The land acquisition process should be completed within the stipulated time period to smooth the functioning of the Project.
(c)	Although incentive aggregating Rs.30.32 million had been paid to the officers of the Ministry, Survey Department, Valuation Department and Divisional Secretariat to expedite and complete the land acquisition activities within 26 weeks, acquisition had been completed only 364 plot of	Several reminders had been sent to the Divisional Secretaries to expedite the process and the ownership of 793 land plots had been transferred to RDA by the Divisional Secretaries as at 30 April 2022. Further, incentives are paid not for the entire process, but	The land acquisition process should be completed within the stipulated time period to smooth the functioning of the Project and the incentive scheme

lands by transferring the title to the Road Development Authority under Section 44 even as at 31 December 2021.

for each stage of completion in the process.

should be re-evaluated.

(d) According to the information received, 6,733 plots of land including 954 plots of crown land were expected to be acquired by the Project. Out of that, Rs.6,704 million had been paid as compensation only for 3,535 plots of land and Rs.658.8 million had been paid as delayed interest only for 2,430 plots of lands as at 31 December 2021. Therefore, it was observed that delay in payments of compensation may directly affect to increase the interest payments to the landowners and therefore it creates a financial burden to the government.

Although there were adequate provision in the estimates often we demand sufficient funds to settle compensation of the affected people, insufficient of the funds received from the General Treasury the full compensation could not be able to pay-off and for the delay of the balance payments of the Compensations with an interest had to be paid. These types of transactions are beyond the project control.

Fund arrangements should be streamlined to avoid abnormal delays and curtail the delayed interest payment on compensations.

3.4 Human Resource Management

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although the Project had furnished the approved cadre included 80 posts as at 31 December 2021, the approval had not been obtained for the specific cadre attached to Section I of the Central Expressway project from the Management Services Department.	Taking into consideration of the requirement of each section of the Expressway sufficient cadre has been allocated by RDA.	Each section of Central Expressway has separate donors and PMUs. Therefore separate cadre for each section should have to be approved by the Department of Management Services.
(b)	According to the Section 2.3.2 of the Management Services Circular No. 01/2019 dated 05 March 2019, although the Project Director should always be recruited on full time basis in order to ensure effective project management, the Project Director had been recruited on acting basis contrary to the circular instructions.	We have interviewed the applicants applied for the post of Project Director and soon we will be able to select and appoint a qualified and experienced applicant for the post of Project Director.	The circular instructions should be strictly followed.

- (c) It was observed that there were vacancies in crucial posts such as Deputy Project Director, Procurement Specialist, Site Engineer, Office Engineer, Design Engineer, Land Acquisition Officer and Land Surveyor etc. Therefore, the audit observed that those vacancies may directly affect to the performance of the Project.
- We have appointed the required staff from time to time as per the requests made by the project based on the service requirements of the project activities and we also critically observe the cadre requirements of the projects before we appointing the staff as per the approved cadre. Therefore it does not affect for the performance of the project.
- Required cadre should be filled to smooth functioning of the Project.
- (d) Although the Land Acquisition Specialists should have to be recruited at the initial stage as Project Monitoring Unit staff, two specialists had been recruited under the consultant's staff and an accumulated sum of Rs.6.4 million had been paid as at 31 December 2021 under the consultancy bills. It was further observed that the project had to be incurred an extra cost due to the consultant overhead cost of 10 percent is being charged on claims under consultancy bills.
- According to the Circular instructions, if the project initiate to recruit a Land Officer it would take a long time and happen to pay salaries for a long period. Therefore, such recruitments done through the Engineer and will be terminated after completion of the relevant activities. This would be more effective and economically viable for the project.
- Project costs should be maintained economically.

4. Systems and Controls

The following observations are made.

Audit Issues	Responses of the Management	Auditor's Recommendations
Although according to paragraph 9.3 of the Management Services Circular No.01/2019 dated 05 March 2019, Project Steering Committee should be met at least once in two months, it was observed that the Steering committee had met only on 30 November 2021 for the year under review.	Although it is extremely necessary to hold Project Steering Committee (PSC) meetings monthly; due to Covid pandemic situation in the country, lockdown of the country, Covid infection to the Staff of the Contractor & Engineer and various circular instructions, PSC meetings could not be held monthly.	Project Steering Committees should be conducted as per Circular instructions to smooth the functioning of the Project.