

Central Expressway (Kadawatha - Meerigama) Project - Section I - 2024

The audit of the financial statements of the Central Expressway Project Section I (Kadawatha – Meerigama) for the year ended 31 December 2024 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 of the loan agreement No. (2018) 17 TOTAL (474) dated 22 March 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the EXIM Bank of China. My comments and observation which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the loan agreement of the project, the Ministry of Transport and Highways, Ports and Civil Aviation is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are the execution and completion of construction work of central Expressway Section 1 from Kadawatha to Meerigama. The estimated total cost of the Project was US\$ 1,371.22 million equivalent to Rs. 186,572 million (Revised) and out of that Rs. 134,628 million equivalent to US\$ 989.448 was agreed to be financed by EXIM Bank of China. The remaining amount of Rs. 51,944 million is expected to be financed by the Government of Sri Lanka. The project work commenced on 15 September 2020 and had been scheduled to be completed by 14 September 2024. However, only 37.67% physical progress had been achieved as at 31 December 2024. As at the end of the year under review, the contract work was being carried out under the reduced work rate method and a time extension was obtained for Package 01 of the project up to 10 August 2025 and for Package 02 up to 13 January 2027.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024 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 scepticism 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

	Accounting Deficiencies	Value Rs. Million	Comments of the Management	Auditor's Recommendations
(a)	Due to the delay in giving the worksite to the contractor, the consultancy firm had extended the period for Package 1 by 194 days and the contractor had submitted a claim amounting to Rs. 65.64 million for this in accordance with Sub-Clause 2.1 of the General	65.64	The claim for additional cost submitted by the contractor has not yet been certified. It will be included in the financial statement upon the completion of	The claims for delays should be disclosed in the financial statements.

Conditions of the Contract. The reasons for handing over the worksite with delay and the cost being increased due to the delay had not been calculated and disclosed in the financial statements.

the certification work.

- (b) As per the paragraph 43(a) of Sri Lanka Public Sector Accounting Standard No. 5, the assets and liabilities should be translated at the closing rate at the date of the financial statement. The foreign exchange rate changes amounting to Rs. 18,911.72 million had not been accounted related to the foreign loans of the project during the year under review.
- 18,911.72 Agreed. The Sri Lanka Public Accounting Standards should be followed.
- The adjustments for the exchange rate differences will be made in future financial statements.

3. Physical Performance

3.1 Physical Progress of the activities of the project

Component	As at 31 December 2024		Delay / Audit Issue	Reason for Delay
	Expected physical performance	Performance achieved		
	Percentage	Percentage		
Package 1 Kadawatha to Kossinna	100	39.77	The contract agreements had been signed on 20 June 2016 for the construction from Kadawatha to Kossinna (Package 01) and on 04 August 2015 for the construction from Kossinna to Mirigama (Package 02). The loan agreement had been signed on 22 March 2019 and it had caused the commencement of construction with a delay of more than four years. Although these two packages had been planned to be completed in the years 2023 and 2024, the construction had not been completed until the end of 2024. The Additional Secretary (Engineering) of the Ministry of Transport, Highways, Ports and Civil Aviation, through the Letter No.	The delay of releasing funds by the EXIM Bank of China.
Package 2 Kossinna to Meerigama	100	35.57		

MH&RD/ENG/04/CEP-I.VOL.II
dated 07 March 2025 addressed to the Project Director, has approved an extension of 880 days for Package 01 from 14 March 2023 to 10 August 2025 and an extension of 851 days for Package 02 from 14 September 2024 to 13 January 2027. An assessment had not been done about the reason for the extension of time and other impacts on the employer as per the terms of the contract.

Response of the Management The main reason for the extension of time is the delay in releasing funds by the EXIM Bank of China. Consequently, the contractor has carried out the work under the reduced work rate method.

Auditor's Recommendations When the extension of period is given, an adequate assessment of the impact on the employer should be carried out and reported, and the steps should be taken to complete the project avoiding the additional costs and delays.

3.2 Contract Administration

	Audit Issue	Comments of the Management	Auditor's Recommendations
(a)	The contractor had submitted eleven claims worth Rs. 16,149 million and Chinese Yuan 6 million to the Project Management Unit as at 31 December 2024 on account of Covid-19, delays in giving work sites, adverse climatic effects, interest on outstanding balances, fuel and electricity crisis and imposing police curfew. These claims remained at the evaluation stage as at 31 December 2024 and the necessary steps had also not been taken to minimize the increase in project costs owing to the claims made.	Although the contractor has submitted claims up to number 28/1,2, only 11 remain active at present and the others were rejected. Due to the said reason, the particulars of only 11 claims have been submitted for audit.	The contract administration activities should be carried out in a manner that prevents the contractor from having the chances to submit additional claims.
(b)	The initial section of the Outer Circular Expressway (Ch0 + 000 to Ch0 + 500) connecting to the Colombo-Katunayake Expressway; which is the most important part of this project, was scheduled to be	Subsequently, it was proposed to be constructed under the first section of the Central Expressway Project. At present, the preliminary	The project should be completed immediately by identifying the priority, and the desired benefits should be given

constructed in the year 2015, and its work/procurement work for to the public. procurement process had not yet this section is in progress. commenced even by 31 December 2024. Although the section of the Central Expressway from Mirigama to Kurunegala was opened on 15 January 2022, it was not possible to achieve the economic benefits as predicted since the construction of the section from Kadawatha to Mirigama has not been fully completed.

- (c) The contractor is entitled to finance charge on daily basis for the non-payment of interim payment certificates within 56 days submitted in accordance with General Conditions of Contract 14.7 and 14.8 of the Contract Agreement. The value of the interim payment bills was Rs. 40,348 million as at 31 December 2024, and the contractor had requested Rs. 12,082 million and US\$ 14.77 million as finance charges in June 2024.
- Since the payments to the contractor have not been made within the specified timeframe, the interest will have to be paid in accordance with the provisions of the aforesaid contract.
- An investigation should be carried out about the delay in interim payments and corrective actions should be taken.

3.3 Activities /Payments outside the Project Objectives

Audit Issue	Comments of the Management	Auditor's Recommendations
<p>Although 725 land lots out of 5348 land lots; for which the Interim Order 38 (A) was issued to enable the taking over of the possession of lands as per the instructions issued by the Secretary of the Line Ministry in the year 2020, were the lands required for the widening of the Gampaha Miriswatta and Gampaha Yakkala roads, the Secretary of the Ministry of Highways had been informed by the Project Director through the Letter No. RDA/PD/CEP-1/A-LA/8(E) dated 13 June 2024 that the widening of these roads was not relevant to the scope of the project and the funds could not be used for that purpose. Accordingly, the acquisition activities of</p>	<p>Widening and upgrading these roads fully is outside the scope defined in the CEP-1 project and could not be carried out due to lack of sufficient funds.</p> <p>Accordingly, the matter was formally handed over to the Road Development Authority (RDA) through letter No. MOH/DEV/02/CEP-1/03/Vol.3 dated 29 August 2024 to carry out necessary follow-ups and implementation.</p> <p>These two roads are very significant traffic corridors and</p>	<p>An investigation should be conducted by the project and the necessary actions should be taken regarding the issuance of Interim Order 38(a) to acquire lands not related to the scope of the project.</p>

these lands had been assigned to the Land Division of the Road Development Authority by the Letter No. MOH/DEV/02/CEP-1/03/VOL 3 dated 29 August 2024 of the Ministry of Highways. Even if the acquisition of these lands was not related to the scope of the project, the payment of late interest is an uneconomic expenditure due to the issuance of Interim Order 38(a) in relation to these lands. It was also observed during the audit that there is a possibility of these 725 land lots being misused.

already experiencing heavy congestion during busy hours. Subsequent to the start of the Gampaha Interchange, which directly connects both the Gampaha-Yakkala road and the Gampaha-Minuwangoda road, a noteworthy increase in traffic volume is expected. It is essential that the Road Development Authority urgently commences the widening of these two roads into four lanes in order to maximize the benefits of the expressway connectivity.

3.4 Idle/ Inactive/ Underutilized Resources

Audit Issue	Comments of the Management	Auditor's Recommendations
<p>Even if the Gampaha Interchange had been planned to be constructed in the range of Ch 10+800.00 – 11+400.00 as per the original plan, and it was decided to move the construction forward by 1.5 km as the project consultant later identified that the section was unusable in rainy conditions. According to the original plan, 2728.36 perches of land had been acquired for construction purposes, and a sum of Rs. 51 million had been paid as compensation and interest for 95 land lots of 2102.86 perches. As these 95 land lots not used for the construction of the project had not been used for any other purpose, the expenditure incurred above was a non-economic expenditure and the relevant lands remained as idle assets.</p>	<p>The final feasibility report, submitted in August 2016, identified the need of implementing preventive measures to mitigate the impacts of the potential flood. The construction of the expressway results in a risk of blocking natural drainage channels, and it can lead to upstream flooding. Consequently, the appropriate drainage and flood mitigation strategies were recommended as essential components of the project design.</p>	<p>An investigation should be carried out about the failure to identify the inability to use the Gampaha Interchange during rainy conditions at the time of preparing the initial plan of the project, its potential impacts, and the responsible parties, and the necessary action should be taken.</p>

3.5 Matters in Contentions Nature

	Audit Issue	Comments of the Management	Auditor's Recommendations
(a)	Although the contract agreements for Packages 01 and 02 of the Central Expressway Project were signed in the year 2016 and 2015, the financing agreements had been signed with the EXIM Bank of China on 22 March 2019 after a delay of more than three years. Even if a sum of US\$ 989.44 million was agreed to be financed, only 5 percent of the funds; that is, US\$ 51.57 million, had been received by 31 December 2022, and the permanent construction activities had been stopped due to non-receipt of funds in the years 2023 and 2024. An amount of Rs. 2029.53 million, equivalent to US\$ 7.76 million, had been paid as commitment fees for the outstanding loan balance as at 31 December 2024, and it was observed that the delay in entering into the loan agreement had further delayed the project and increased the project cost.	As the loan instalments had not been provided after the year 2022, the use of loan funds was limited to US\$ 51.59 million even at the end of the year 2024. The receipt of loan instalments will start again after the completion of the IMF debt restructuring program. The relevant disclosures will be made in the future financial statements.	The loan agreement and contract agreement should be reviewed and alternative options should be analysed to prevent the increase of project cost with regard to the issues arising on such special circumstances.
(b)	Although an amount of Rs. 863,623,281 has been mentioned in the financial statements as interest payments for the delay in land acquisition, the balance as per the schedule was Rs. 1,070,399,653. Accordingly, there was a difference of Rs. 206,776,372.	A number of transactions had not been updated within the time limit given for balance confirmation.	The certifying officer should ensure that the figures included in the financial statements are compatible with the source documents.
(c)	Although an amount of Rs. 37,657,574 has been mentioned in the financial statements as salary payments for the staff attached to the project by the Road Development Authority, the said balance according to the schedules was Rs. 32,189,405. Accordingly, there was a difference of Rs. 5,468,169.	The overtime amounting to Rs. 2,132,040 is not included in the RDA Salary and General Ledger balance, and is has been included in the Accounts called Overtime Travel Expenses Field Office and Overtime and Travel Expenses Head Office.	The certifying officer should ensure that the figures included in the financial statements are compatible with the source documents.

- (d) An uncertainty has arisen about managing the cost to be incurred in the future, i.e. the costs to be incurred due to price fluctuations and changes in exchange rates, within the agreed amount of foreign debt and the value of local funds as there is no formal mechanism to continue the construction of the project due to the non-receipt of funds even by present, and the project had been implemented without a proper feasibility study to minimize those uncertainties. Consequently, the project has been halted for more than two and half years, and the safety and environmental issues of the construction have to be faced for a long time.
- The project work was delayed after June 2022 mainly due to the suspension of funding by the Chinese EXIM Bank. The feasibility study was conducted in August 2016. Accordingly, a delay of work was not occurred due to the failure to carry out a proper feasibility study.
- The priority should be identified and the project should be completed immediately to provide the desired benefits to the public.
- (e) As per the progress report submitted by the project consultant as at 31 December 2024, 554 beams in the work sites have encountered with serious technical issues. It was also observed that 903 beams placed on the relevant structures as per the approved plan were not having diagram walls. Also, even if the contractor has taken temporary protection due to the cessation of constructions, the corrosion of the wire reinforcement exposed in the partially constructed structures can be a serious problem.
- 554 beams intended to be placed on previously completed pillar have been stored at the contractor's yard. Of these, 170 beams are scheduled to be used to complete the structure on the pillars by May 2025.
- Once this phase is completed, the contractor will apply a cement layer as a protective coating on the exposed steel sections of approximately 384 pre-cast beams at the contractor's yard.
- The steps should be taken to ensure the standard of the construction.
- (f) It was observed that the variation order of Rs. 955 million submitted by the contractor on 19 March 2021 for the construction of the temporary road, including the direction road at the project site, was in the evaluation stage even by the end of the year 2024.
- Only a basic estimate had been presented by the consulting firm on 19 March 2021, and a delay occurred in identifying the correct quantities and approving the unit rates.
- The contract administration activities should be carried out so that the variations are minimized and ensuring that the variations being presented are evaluated in line with proper procedures and approved in a timely manner.

- (g) The project had paid Rs. 1,200 million as a special advance to the contractor during the year under review using government funds on the instructions of the National Operations Room meeting held on 18 March 2024 and 01 July 2024 in order to minimize the risk related to the termination of the contract agreement due to non-receipt of foreign loans. In case of further delay in receiving the foreign loans, such advance payments to the contractor can be a further burden of financial expenditure to the government.
- As per the instructions of the National Operations Room Meeting held on 18 March 2024 and 01 July 2024, an amount of Rs. 500 million and Rs. 700 million have been paid to the contractor as special advances during the year 2024. The employer, engineer and contractor have taken necessary steps to minimize the impact on the environment and the public during the project suspension period.
- While an amount of Rs. 33 billion had been paid to the contractor as an advance under commercial loan funds obtained from local banks by the year 2021, the payments had been made outside the conditions of the contract without conducting an analysis about that matter and without an agreement to continue the construction. Consequently, an investigation should be conducted about the impact thereof and the corrective and preventive measures should be taken.

3.6 Issues relating to the Land Acquisition

Audit Issue	Comments of the Management	Auditor's Recommendations
(a) As per the particulars presented to the audit, Section 38(a) of the Land Acquisition Act, No. 09 of 1950 had been issued to acquire 7,802 land lots for the construction activities of the project, and 5,424 land lots were the lands acquired from the private sector. In order to expedite the acquisition activities of these lands, the project had paid Rs. 33 million as incentives to the Survey Department, Department of Valuation, Ministry of Lands, Land Division of the Road Development Authority and Divisional Secretariats from the year 2016 to 2024, and a sum of Rs. 11,364 million had been paid as compensation for the acquisition of 4,312 land lots. However, only 1,910 land lots had been registered in the name	The compensations amounting to Rs. 11,364.03 million have been paid to the landowners for 4,312 land lots as at the reporting date. According to the recent progress updates, the Notices of section 44 have been issued for 1,910 lots. The Project Management Unit is committed to ensure the efficiency in all statutory and procedural requirements of land acquisition in close collaboration with the responsible authorities.	The lands acquired subsequent to paying compensation should be properly registered.

of the Road Development Authority under Section 44 of the Land Acquisition Act. It represents 35 percent of the land lots acquired from the private sector, and 55 percent of the total land acquired (2422 land lots) had not been registered in the name of the Road Development Authority. Although the institutions involved in the land acquisition process are entitled to special benefits, it was observed that the land acquisition process had not been completed properly.

- (b) The project cost had increased as an additional expenditure had to be incurred as late interest in the payment of compensation for land acquisition. The compensation of Rs. 11,265 million had been paid for 4,222 land lots as at 31 December 2024, and only 1,800 land lots out of those had been registered in the name of the Road Development Authority. An amount of Rs. 864 million had been paid as late interest for these land lots and another amount of Rs. 258 million had been accrued.
- The following factors are the main reasons for the delay in land acquisition:
1. Inter-agency dependencies
 2. Revision of Basic Plans.
 3. Disputes and Legal Proceedings.
 4. Duration of the Compensation Process.
- Land acquisition should be done according to a proper plan so that interest payments for compensation are minimized.