

## **Extension of Southern Expressway Project - 2014**

-----

The audit of financial statements of the Extension of Southern Expressway Project for the first accounting period from 13 February 2014 to 31 December 2014 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. The Project is implemented under the Agreements No. PBC No.(2014) 27 Total No.(321) for Section 01, GCL No.(2014) 17 Total No.(520) for Section 03 and GCL No.(2014) 18 Total No.(521) for Section 04 dated 23 December 2014 and 16 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Export Import Bank of China.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreements of the Project, the Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The extension of the Southern Expressway from Matara to Hambantota with the length of 96 kilometres was identified as the objective of the Project for the purpose of development of the road network to support and facilitate the activities of the Hambantota International Development Hub Project. The proposed extension of the Southern Expressway has been divided in to four sections namely Matara to Beliatte, Beliatte to Wetiya, Wetiya to Andarawewa and Mattala to Hambantota. As per the Loan Agreements, the estimated total cost of the Project was US\$ 1,469 million equivalent to Rs.187,010 million and out of that US\$ 1,348 million equivalent to Rs.171,518 million was agreed to be provided by the Export Import Bank of China. The Project commenced its activities on 13 February 2014 and scheduled to be completed by 15 September 2019 of the first section and 22 December 2019 of the other two sections. The completion date of other section had not been determined yet.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material

misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loans, etc.
- (d) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (g) Whether the financial covenants laid down in the Loan Agreements had been complied with.

## 2. **Financial Statements**

### 2.1 **Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period from 13 February 2014 to 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the financial covenants laid down in the Loan Agreements had been complied with.

## 3. **Financial and Physical Performance**

### 3.1 **Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the period under review and up to 31 December 2014 are shown below.

<u>Source</u>	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary provision for the year 2014</u>	<u>Funds utilized during the period under review</u>	<u>Funds utilized up to 31 December 2014</u>
	US\$ million	Rs. million	Rs. million	Rs. million	Rs. million
Export Import Bank of China	1,348	171,518	-	-	-
GOSL	<u>121</u>	<u>15,492</u>	<u>144.7</u>	<u>70</u>	<u>70</u>
	<u>1,469</u>	<u>187,010</u>	<u>144.7</u>	<u>70</u>	<u>70</u>

It was observed that the proceeds of a separate loan amounting Rs. 96 million obtained by the Road Development Authority from a local Commercial Bank had been utilized to implement

the activities of the Project. However, the details of the repayment of the loan had not been explained for audit.

### **3.2 Physical Progress**

The activities such as environment impact assessment, feasibility studies and land acquisition activities etc had been initiated during the period under review and no road construction works had been commenced as at 31 December 2014.

### **3.3 Contract Administration**

The following observations are made.

- (a) There should be a comprehensive overall plan and annual action plan to ensure successful implementation of the Project within the specific time period. Such plans had not been prepared by the Project.
- (b) A sum of Rs.4.75 million had been paid by the Project for the staff of the Road Development Authority to carry out Environmental Impact Assessment and Feasibility Studies etc, without obtaining the approval of the General Treasury.

### **3.4 Matters in Contentious Nature**

The Project had hired 50 vehicles from the suppliers registered at the Road Development Authority and Rs.23 million had been incurred thereon during the period under review without providing a fair and equal opportunity for eligible interested parties to participate for procurement procedure.