

Central Expressway Project - 2015

The audit of financial statements of the Central Expressway Project for the year ended 31 December 2015 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

The Executing Agency of the Project is then Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways and the activities of the Project are Implemented by Road Development Authority. The objectives of the Project are to construct the Central Expressway of 182 kilometres which from a part of the national expressway network and eventually join Colombo City and Dambulla town in the North Central Province. The construction works are scheduled to be implemented under 04 phases with a link to Kandy City. The financial arrangement for Project and its duration had not been finalized even as at 31 December 2017.

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 risks of material misstatement 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 provided by the Government of Sri Lanka, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Contribution amounting Rs 1,409.10 million received from Government of Sri Lanka to initiate the activities of Project had been shown under the Non-current Liabilities in the Statement of Financial Position, instead of being shown under the Sources of Funds.
- (b) Balances aggregating Rs. 1.66 million payable as at 31 December 2015 had not been brought to the financial statements. As a result, the balances shown in the Statement of Financial Position under work-in –progress and current liabilities had been understated.

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 year under review and up to 31 December 2015 are shown below.

Source	Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
		during the year under review		as at 31 December 2015	
-----	-----	-----	-----	-----	-----
	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Government of Sri Lanka	200.00	0.55	75.60	10.28	1,409.10
Total	<u>200.00</u>	<u>0.55</u>	<u>75.60</u>	<u>10.28</u>	<u>1,409.10</u>

The following observations are made.

- (a) It was observed that the activities of the Project had been initiated, out of the allocation amounting to Rs. 335.90 million made by the Road Development Authority from a Loan obtained from a Licensed Specialized Bank. However, the arrangements made by the Project to settle the Loan had not been explained for audit.
- (b) According to the above information, only a sum of Rs. 75.6 million had been utilized as at 31 December 2015, out of the allocation amounting to Rs.200 million made in the Budget Estimate for the year under review, due to lack of proper cost estimate.

3.2 Physical Progress

The activities under the construction of 100 kilometres of Northern Expressway from Enderamulla to Dambulla had been commenced under the National Master Road Plan for 2007-2017. The construction works were planned to be implemented under 04 phases and linked to the Central Expressway from Potuhera to Galagedara. However, the proposal for construction of Northern Expressway had been suspended and the Cabinet of Ministers had decided at its meeting held on 16 July 2015 to construct the Central Expressway with 182 kilometers from Kadawatha to Dambulla with linked expressway to Kandy City.

3.3 Contract Administration

The original contract for the consultancy services was awarded on 09 January 2013 to an Australian firm at Australian Dollar 4.00 million equivalent to Rs. 543.94 million and Rs. 414.23 million without taxes. However, the cost of the consultancy contract had been increased upto Australian Dollar 6.34 million equivalent to Rs. 757.69 million and Rs. 583.07 million without taxes due to changes of the road construction works and alterations made in the feasibility reports of the Central Expressway to meet Chinese Quality Standards as well as Australian Quality Standards. Further, the approval letter to adopt the Chinese Quality Standards on horizontal alignment, vertical alignment, cross sections and prepare drawings based on initial topographic survey, initial geotechnical survey and initial hydrology survey etc had not been furnished to audit. In addition, early actions had not been taken by the Project to obtain tax exemption on the consultancy services and as a result, a sum of Rs. 274.08 million had to be incurred by the Project, as taxes thereon.

3.4 Issues on Financial Controls

According to the Financial Regulation - 756, annual verification of fixed assets had not been carried out by the Project for the year 2015. Further, several items of property, plant and equipment transferred from the Road Development Authority had not been revalued and brought to account.

3.5 Human Resources Management

It was observed that 15 Consultants and 02 Public Liaison officers had been appointed during the year under review even though no such posts were approved by the Department of Management Services. Further, certificates to prove the educational and professional qualifications of 10 Consultants were not made available for audit.