

Extension of Southern Expressway Project - 2015

The audit of financial statements of the Extension of Southern 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 read in conjunction with Loan Agreements No. PBC No.(2014) 27 Total No.(321), PBC No.(2015) 38 Total No.(381), GCL No.(2014) 17 Total No.(520) and GCL No.(2014) 18 Total No.(521) dated 16 September 2014, 23 December 2014 and 07 April 2016 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, then the Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to extend 96 kilometres of Southern Expressway from Matara to Hambantota and develop road network to support and facilitate the activities to develop Hambantota as an international investment hub. The construction works of the Expressway has been divided into 04 sections such as Matara to Beliatte, Beliatte to Wetiya, Wetiya to Andarawewa and Mattala to Hambantota via Andarawewa. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 1,892 million equivalent to Rs. 250,936 million and out of that US\$ 1,708 million equivalent to Rs. 226,142 million was agreed to be provided by the Export Import Bank of China. The activities of the Project had been commenced in September 2014 and scheduled to be completed by January 2020.

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 followings.

- (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 withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) 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 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,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Consultancy fee amounting to Rs. 152.17million payable as at 31 December 2015 had not been brought to account.

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	Amount agreed for financing according to the Loan Agreement		Amount allocated in the Budget Estimate for the year 2015	Funds utilized	
	US\$ million	Rs. million	Rs. million	during the year 2015	up to 31 December 2015
Export Import Bank of China	1,348	174,760	14,804	14,803	14,803
GOSL	121	15,725	6,373	6,213	6,282
Total	<u>1,469</u>	<u>190,485</u>	<u>21,177</u>	<u>21,016</u>	<u>21,085</u>

3.2 Physical Progress

The following observations are made.

- Eventhough an action plan should be prepared based on the comprehensive overall plan to identify the responsibilities of the core staff and financial and physical targets to be achieved, such a plan had not been prepared by the Project for the year under review.
- It was observed that the construction works of 03 sections of the Expressway from Matara to Beliatte, Wetiya to Andarawewa and Mattala to Hambantota had been commenced in January 2016 and the construction works of other section from Beliatte to Wetiya had not been commenced even as at 31 December 2016 due to delays in land acquisitions activities. According to the information received from the Line Ministry, only 45 per cent of land acquisition activities had been completed as at 31 December 2015, out of 7,865 plots of land including 2,149 plots of crown lands expected to be acquired as at 31 December 2014. However, incentives aggregating Rs. 9.86 million had been paid during the year under review to the officers involved for the land acquisition activities.

3.3 Human Resources Management

The following observations are made.

- (a) Eventhough the Project Monitoring Unit had been established in September 2014, the key posts of 04 Project Directors, a Team Leader, a Procurement Consultant, a Senior Land Acquisition and Resettlement Officer, 03 Deputy Project Directors, a Financial Manager and 02 Senior Engineers had remained vacant over a year as at 31 December 2015.
- (b) Eventhough the Department of Management Services had approved to recruit 12 Land Acquisition and Resettlement Officers, the Project had taken action to recruit 12 Land Acquisition and Resettlement Consultants during the year under review. It was observed that such appointments had been based on the provisions made in the Public Administration Circular No.09/2007 2 (iv) allowing to pay fuel, transport and residential allowances amounting Rs. 67,680 per month, per officer.

3.4 Matters in Contentious Nature

It was observed that the foreign consultancy firm appointed by the Project had not been mobilized until August 2014 and as a result, the Project had deployed a local Consultant who appointed for other project called Northern Road Rehabilitation Project. The consultancy fees amounting to Rs. 40 million paid thereon had been charged to that Project.