

## **Central Expressway Project (Section I) – 2016**

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The audit of financial statements of the Central Expressway Project (Section I) for the year ended 31 December 2016 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**

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The Executing and Implementing Agencies of the Project are then the Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways and the Road Development Authority respectively. According to the decision of the Cabinet of Ministers arrived at its meeting held on 08 July 2015, the construction works of the Central Expressway are expected to be implemented under 04 sections and the objective of the Project is the construction of first section of the Central Expressway from Kadawatha to Meerigama comprised with 36.59 kilometres under 02 contract packages. However, the financial arrangements with the assistance of Exim Bank of China were not finalized as at 31 December 2016. The activities of the Project was commenced on 29 December 2016 and scheduled to be completed by 31 August 2020.

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

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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**

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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 of 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.

**2. Financial Statements**  
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**2.1 Opinion**  
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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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 Comment on Financial Statements**

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### **2.2.1 Accounting Deficiency**

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The Road Development Authority had transferred 199 items of property, plant and equipment to the Project during the year under review. However, the value of the respective assets had not been determined and brought to accounts.

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

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### **3.1 Utilization of Funds**

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An allocation aggregating Rs. 2,944 million had been made in the Budget Estimate for the year under review for the Central Expressway Project and out of that a sum of Rs. 1,070 million had been allocated for the Section-I of the Project. However, only a sum of Rs.130.5 million representing 12 per cent of the allocation for the Project had been utilized as at 31 December 2016 due to delays in timely disbursement of funds by the General Treasury and the delays in application of the process for land acquisition purposes.

### **3.2 Physical Progress**

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The following observations are made.

- (a) The Cabinet of Ministers had decided at its meeting held on 06 July 2015 to award the contract for construction of the Expressway from Kadawatha to Meerigama to a Chinese construction company at a cost of Rs. 158,385.78 million under 02 contract packages. Further, the contract for consultancy services for designing and construction supervision had been awarded to a joint venture company at a cost of Rs. 2,548.92 million under financial arrangements made with the Bank of Ceylon. The contractors had commenced the activities of geotechnical investigations, designing of detailed structural designs and test piling etc, on 29 December 2016.
- (b) Eventhough the incentives aggregating Rs. 18.05 million had been paid to the officers to expedite and complete the land acquisition activities within 26 weeks, only 62 per cent of such activities had been completed as at 31 December 2016.

### **3.3 Issues on Financial Control**

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It was observed that a sum of Rs. 13.04 million representing 15.5 per cent of total cost of the Project amounting to Rs. 83.91 million excluding cost on land acquisition had been spent during the year under review for hiring and maintenance of motor vehicles. The control weaknesses thereon observed during the course of audit are described below.

- (a) A motor vehicle hired by the Project had been allocated to a Consultant engaged in the Land Division of the Road Development Authority and it was observed that 7,207

kilometres over the allowed limits had been run from July to December of the year under review.

- (b) The Quotation for hiring of motor vans had been called during the year under review from 07 suppliers out of 13 registered suppliers, avoiding opportunities to improve the competitiveness thereon. Further, the selected bidder had been allowed to change the respective motor van without obtaining the concurrence of the Technical Evaluation Committee.
- (c) The relevant documents and running charts related to 02 motor vehicles provided by the construction contractor had not been maintained by the Project allowing opportunities to misuse.

### **3.4 Human Resources Management**

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The key positions of the Project including Engineer, Resettlement Assistant, Procurement Specialist, Land Surveyor, Technical Officer and Project Quantity Surveyors had remained vacant as at 31 December 2016 and it was influenced badly for the smooth operations of the activities of the Project.