

Extension of Southern Expressway Project - Section 04 - 2017

The audit of financial statements of the Extension of Southern Expressway Project- Section 04 for the year ended 31 December 2017 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. GCL No (2014) 18 Total No. (521) dated 16 September 2014 and GCL No. (2015) 27 Total No. (566) dated 22 December 2017, 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 Agreement of the Project, then Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the Project is to have a link between the commercial city (Colombo) and newly constructed Sea Port (Hambantota) and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota. The estimated cost of the extension of 25 km of Southern Expressway from Mattala to Hambantota via Andarawewa under Section 04 of the Project amounted to Rs.55,965 million and out of that US\$ 435 million equivalent to Rs.55,615 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance amount of Rs. 350 million is expected to be financed by the Government of Sri Lanka. The construction works of the Project had been commenced on 19 January 2016 and scheduled to be completed by 19 January 2019 and subsequently extended up to 09 July 2019.

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

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards, and

- (b) the funds provided had been utilized for the purposes for which they were provided.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Although the loan agreement had been signed for Rs3,458 million between the Government of Sri Lanka and the Export and Import Bank of China for the Consultancy services of the Extension of Southern Expressway on 22 December 2017, those information had not been disclosed it in the financial statements.
- (b) The Civil work Consultant of the project had been mobilized and carrying out their works since September 2015. However, the future liability arising on the consultancy works had not been disclosed in the financial statements for the year under review.

2.2.2 Non - Compliance with Laws, Rules and Regulations

The following observations were made.

No	Reference to the Laws, Rules and Regulations etc	Non- compliance
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(a)	Section 5.4.4 (1) of the Government Procurement Guidelines	A sum of Rs.10,431 million had been paid to the contractor as mobilization advances up to the end of the year under review. However, there was an overpayment of Rs.3,187 million, due to typographical error in computing the advances without excluding the provisional sum items and contingencies in the BOQ.
(b)	Sub Clause 14.6 of the Particular Condition of Contract	Minimum amount of Interim Payment Certificate to be submitted by the contractor was 1 per cent of the value of the contract. However, 03 instances were observed where evaluation of Interim Payment Certificates below the required threshold.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed to finance as per the Loan Agreement		Budgetary provision for the year 2017	Funds utilized	
	US\$ million	Rs. million	Rs. million	during the year 2017 Rs. million	up to 31 December 2017 Rs. million
Export Import Bank of China-Civil Works	412.0	52,156	15,085	15,081	23,742
Export Import Bank of China- Consultancy	22.9	3,458	-	-	-
GOSL (PMU, Land Acquisitions)	-	350	116	116	156
National Savings Bank	-	-	-	5	31
Sampath Bank	-	-	-	37	37
Total	<u>434.9</u>	<u>55,964</u>	<u>15,201</u>	<u>15,239</u>	<u>23,966</u>

3.2 Physical Progress

The following observations are made.

- (a) Expected physical progress of the civil works and land acquisition was 70 per cent and 62 per cent respectively and physical progress of the 62 per cent and 49 per cent respectively had been achieved as at 31 December 2017. Therefore, the Project was marginally behind the expected targets.
- (b) The Project was scheduled to be completed by 09 July 2019. However, according to the progress report of the Project as at 30 September 2018, the achieved progress was 81 per cent against the expected progress of 96 per cent and therefore the completion of the Project with in the target date is uncertain.

3.3 Contract Administration

The following observations are made.

- (a) The separate pay items had been made in the Bill of Quantities by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the contract to obtain performance security bonds at cost of respective contractor. Accordingly, a sum of Rs. 11.64 million had been paid additionally to the contractors to reimburse the cost of performance security bonds obtained by the contractors.
- (b) Eventhough daily work programs had been produced by the contractor, construction works had not been carried out in line with such programs throughout the period, due to poor close supervision of the responsible officers. Further, a major requirement of construction and installation of Toll system to complete the Project had not been designed and commenced even up to the physical inspection made on 12 October 2018.

- (c) Eventhough the preparation of detailed tracing had been commenced on 23 October 2014, actions had not been taken by either employer or the Project to band the illegal excavation of the trace of the Section- 04 of the Extension of Southern Expressway Project. As a result, extra amount of Rs.386.6 million had been spent by the Project to fill the land.
- (d) The post of the Consultant for Social and Environment, Compliance and Land Acquisition had not been included to the approved carder of the Project. However, salaries amounting to Rs. 1.32 million had been paid during the year under review for those positions through the BOQ item No. 109(1).