

Extension of Southern Expressway Project – Section 4 - 2020

The audit of financial statements of the Extension of Southern Expressway Project – Section 4 for the year ended 31 December 2020 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. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then the Ministry of Higher Education and Highways, presently the Ministry of Transport 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 25km of Southern Expressway from Mattala to Hambantota via Andarawewa under Section 4 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence, I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	A difference was observed relating to the delayed interest payment on land acquisition compensation when compared with the schedule submitted to the audit and the financial statements as at 31 December 2020.	8.13	Proper answer will be provided.	Updated information need to be maintained related to land acquisitions.
(b)	Eventhough the statutory compensation for land acquisition had been paid with a delay, delayed interest had not been calculated for 31 plots of lands and as a result, provision for delayed interest	-	Proper answer will be provided.	Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08.

and work in progress had been understated by that amount in the financial statements as at 31 December 2020.

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| (c) | A difference was observed between the schedule submitted to the audit and the financial statements as at 31 December 2020 relating to compensation paid on land acquisition. | 16.23 | Proper answer will be provided. | Updated information need to be maintained related to land acquisitions. |
| (d) | As per the sub clause 14.7 and 14.8 of General Conditions of Contract, the contractor had requested an amount of Rs.359 million and Rs.98.7 million as claim on delayed interest and interest on delayed interest respectively. However, it had not been accounted in the financial statements as at 31 December 2020. | 457.7 | The interest for delayed payment and interest for delayed interest had not been finalised by the end of year 2020. Hence, it had not been accounted to the year under review. | Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08. |

3. Physical Performance

3.1 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a).	According to the Sub Clause 14.6 of Particular Condition of the Contract, the certified work done of an interim payment certificate should be greater than 1 per cent of the value of the contract. However, there were 03 instances were observed where evaluation of Interim Payment Certificates below than the required threshold during the year under review.	Agreed.	It is required to adhere with the thresholds stipulated in the condition of contract in order to minimize the costs, time and undue favouration for the contractors.
(b).	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 guarantees at cost of respective contractor. Accordingly, a sum of Rs.201.27 million had been paid additionally as per the draft final statement with the exceeding of BOQ value by Rs. 12.6 million to the contractor to reimburse the cost of performance security bonds.	It will be corrected by without including separate BOQ item for the performance security reimbursement or payment for the future contracts.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

- (c). Though the Sub-Clause 20.6 of General Conditions of Contract mentioned as the arbitration may be commenced prior to or after the completion of the works, a particular time period has not been specified even in the Particular Conditions of the Contract to commence the arbitration after the issuance of notice of dissatisfaction. Therefore, three (03) disputes claims amounting to Rs.509 million are still open for arbitration after issuance of Notices of Dissatisfaction and the entitlement for the contractor could not be finalized even after expiry of 1 year from the completion of defect notification period of the Project. Hence, the contractor had not issued the letter of Discharge as per the Sub Clause 14.12 of Conditions of contract up to the 30 September 2020.
- Agreed.
- After issuing a notice of dissatisfaction, a specific time limit should be included in the specific conditions for the commencement of the arbitration.

3.2 Issues related to Land Acquisition

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Though the Gazette notice of Section 38(a) had been published in the years 2015 and 2016, the compensation amounting to Rs. 18.71 million for 54 plots of land had not been paid even by 13 July 2021. Furthermore, compensation to be paid for 03 plots of land had not been provided in the financial statements as at 31 December 2020.	Proper answer will be provided.	Action should be taken to pay compensation without delays.
(b)	Eventhough the Project had been completed and the performance certificate had been issued on 31 July 2020, any plots of land acquired for the Project had not been registered under the Road Development Authority as per the Sub Clause No.44 of the Land Acquisition Act.	The necessary steps have been taken to complete as per the Sub Clause 44 of the Land Acquisition Act.	Necessary action should be taken to speed up the land acquisition process.