

Ruwanpura Expressway Project - 2021

The audit of the financial statements of the Ruwanpura Expressway Project for the year ended 31 December 2021 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

The Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to construct a new expressway between the Southern Expressway and the Central Expressway to improve the strategic and socio economic condition of the country. The estimated total cost of the Project was approximately Rs.286,000 million and had been decided to finance by local banking system under supervision of Secretary to the Treasury. The proposed Expressway traverses from Kahathuduwa through Ingiriya and Rathnapura to Palmadulla with the overall length of 76.4 km. The civil works of 24.3 km length of the Expressway from Kahathuduwa interchange to Ingiriya had been awarded on 30 June 2021 and had been suspended by the contractor on 10 May 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 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 the 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.

I 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**

Accounting Deficiencies	Amount	Management Responses	Auditor's Recommendations
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-----	Rs.	-----	-----
-----	million	-----	-----
(a) The payable aggregating amount required to be paid to the contractor for the 2 nd advance payment and Interim Payment Certificate No. 3 and 4 for the year 2021 had not been shown in the financial statements of the Project for the year under review.	4,161.77	The project will be made necessary arrangements to account above IPCs in the year of 2022.	Action need to be taken to record correct liability as at 31 December 2021.

- (b) The value of the Assets and relevant depreciation of the Furniture & Fittings, Office Equipment, Computers and Mobile Phones etc purchased under Interim Payment Certificate No.02 of contract package 01 had shown under work-in-progress without being recorded under property, plant and equipment in the financial statement of the Project as at 31 December 2021. 10.97 The project will be made necessary arrangements to account the above assets for the years 2021 and 2022 and rectified relevant accounting entries affecting to the year 2021. Action need to be taken to rectify the mistakes.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Although the Ruwanpura Expressway Project commenced in 2016, out of 73.9 km of the Expressway from Kahatuduwa Interchange to Pelmadulla section, 24.3 km from Kahatuduwa Interchange to Ingiriya section only had been awarded for the construction as at 31 December 2021. However, procurement activities of 2km for the Kahatuduwa interchange and 47.6 km from Ingiriya to Pelmadulla section had not been commenced even as at 31 July 2022. Further, it was observed that the approval for the Environment Impact Assessment Report (EIA) for the road section from Ingiriya to Pelmadulla had not been granted by the Central Environmental Authority even as at 31 July 2022. Therefore, the construction of intermediate road section from Kahatuduwa Interchange to Ingiriya section became lower importance to the country.

3.2 Contract Administration

No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	According to the information, construction activities of 24.3 km from Kahatuduwa interchange to Ingiriya section was initially planned to award as 04 separate contractors. However, the construction activities of the all 04 sections had been awarded to one company by considering lower bids offered by the construction company. Although the 04 bids value offered by the company for each 04 sections were lower than the engineering estimate by 14 per cent to 22 per cent, the construction activities of the 04 sections had been suspended by the contractor after 372 days from the date of commencement of the contract on 10 May 2022, due to failure to settle the payment as per the condition of contract.	The Contractor is entitled to suspend work, due to delay of payment of IPC as per Sub Clause 16.1 of General Condition of Contract. Suspension of work has been done after 372 days from the date of commencement.	Action need to be taken to comply with condition of the contract.

- (b) According to the decision of Cabinet of Ministers on 01 July 2020, the funding facilities for the civil construction works of the Project should be arranged through the local Banks of the country. Although the construction works of Kahatuduwa to Ingiriya section of the Expressway had been awarded for the cost of Rs.54,695 million on 30 June 2021, only Rs.16,200 million funding facilities had been arranged through two local Banks as at 31 December 2021. Accordingly, the balance construction cost of Rs.38,495 million had not been arranged by the Project even as at 31 December 2021. Further, the total unsettled liability of the contractor had been increased to Rs.5,410 million as at 30 June 2022.
- The Bank of Ceylon was not funded to the Contract as per the loan agreement, due to prevailing financial crises in the country and unsettled liability to the contractor was Rs. 5,410 million as at 30 June 2022.
- Action need to be taken to obtain funding facilities before awarding the contract.

3.3 Payments made out of the Project objective

Audit Issue	Response of the Management	Auditor's Recommendation
Contrary to the objective of the Project, a sum of Rs.1.8 million for the 27 Mobile phones had been purchased by the Project under Interim Payment Certificate No.03 during the year under review.	This project was started during the Covid-19 pandemic situation. Hence, all the site works also monitored by electronic media of virtual platform and WhatsApp, etc. Therefore, 27 mobile phones were purchased and collecting data & monitoring the progress was done as the consultant was not appointed.	Action need to be taken to comply with the objectives of the Project and any loss arise, due to deviation of the objective should be recover from the responsible personals.

3.4 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information, the total plots of land to be acquired by the Project were 2,439 including 615 plots of crown land in the Kahatuduwa to Ingiriya road Section. Although the Section 38 (a) had been gazette for 2,060 plots of land in the year 2017 – 2018, the compensation of Rs.222.24 million had been made only for 422 plots of land under the Section 17 of the Land Acquisition Act as at 31 December 2021. However, any plot of land had not been registered under section 44 of the Land Acquisition Act as at 31 December 2021.	Presently the Land Acquisition process in progress & the all lands will be registered under the Section 44 after completion of the compensation process.	Action need to be taken to accelerate the land acquisition activities and register the lands under section 44 of the Land Acquisition Act.