

Extension of Southern Expressway Project – Section I - 2021

The audit of financial statements of the Extension of Southern Expressway Project – Section I 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 the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to develop the road network to support and facilitate to the Hambantota International Hub Development activities. As per the Loan Agreement, the estimated total cost of the Project was US\$ 804.11 million equivalent to Rs.103,280 million and out of that US\$ 683.49 million equivalent to Rs.87,788 million was agreed to be financed by Export Import Bank of China. The balance amount of Rs.15,492 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 19 January 2016 and scheduled to be completed by 18 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 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 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

The following observations are made.

No	Accounting Deficiencies	Response of the Management	Auditor's Recommendations
(a)	Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision of Rs.21 million for statutory compensation and Rs.166 million for delayed interest required to be paid on land acquisition had not been made in the financial statements as at 31 December 2021.	After the closure of SPD Division, the Land acquisitions have been transferred to the Land division of RDA.	Adhere to the Sri Lanka Public Sector Accounting Standards.
(b)	The documentary evidences for the cancelled cheque amounting to Rs.3.5 million shown as payable for land acquisition under the current liabilities had not been furnished to the audit to verify the balance.	RDA land division was instructed to find the documentary evidences pertaining to the cancelled cheque.	Cancelled cheques need to be accounted with documentary evidences.

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| (c) | A provision of Rs.948.27 million had not been made for the claim on delayed interest which was certified by the consultant in the financial statements as at 31 December 2021. | Interest for delayed payment has been shown as a contingent liability in the financial statement for the year 2020 and upon winding up of the project, all the liabilities were transferred to the RDA. | Adhere to the Sri Lanka Public Sector Accounting Standards. |
| (d) | The differences of Rs.127.3 million and Rs.200.83 million had been observed between financial statements and the details submitted by the project as at 31 December 2021 on the paid statutory compensation and statutory interest respectively. | The reports which issues by the project is always a sum of outstanding payment within the process and also the payment issued by the Accounts Division. | Financial statements should be prepared accurately. |
| (e) | A provision had not been made for the commitment charges on remaining loan balance of US\$ 19.51 million for civil works and US\$ 61.08 million for Supervision Consultancy as at 31 December 2021. | The General Treasury had not informed the amount of commitment fee paid or to be paid on behalf of the Project. Hence, a provision was not made in the financial statement. | Adhere to the Sri Lanka Public Sector Accounting Standards. |

3. Physical Performance

3.1 Progress of the Land Acquisition Process

The following observation is made.

Audit Issue	Response of the Management	Auditor's Recommendation
Though the land acquisition processes commenced in the year 2014 and Rs.29.67 million had been paid as incentives for officers to expedite the process, the land acquisition process had not been completed even as at 31 December 2021. It was observed that, an amount Rs.3,762.4 million had been paid as compensation for 3,600 lots of land and Rs.525.8 million as delayed interest for 2,547 lots of land as at 31 December 2021.	The incentive is designed to pay for a period after handed over the work relevant to each stakeholder organization. If they successfully complete the task within the period specified, is eligible for the payment without considering other delays.	Necessary action should be taken to speed up the land acquisition process.

3.2 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The Project had denied the contractor's entitlement for custom duty concession for 04 Toyota fortuna vehicles, 1 Mercedes Benz van and 10 Pickups for the use of transportation of officers due to the contractor had imported those vehicles without having the prior approval from the employer. However, later on the Project had to reimburse excise duty of Rs.91.74 million paid for 02 Toyota fortuna vehicles and 10 Pickups to the contractor and Rs.27.55 million which paid as interest for delayed payment.	As per the Sub-Clause 20.2 of GCC, Dispute Adjudication Board (DAB) was constituted in the Project. Accordingly, relevant payments have been made to the Contractor as directed in the decision given by DAB and amicable settlement committee (ASC).	Action should be taken to minimize additional cost by making right decision on right time.
(b)	Though the land had been acquired for a service area at Gatamana to construct a service area as per the Chapter 8.33 of the Feasibility Study Report, it had not been estimated and no BOQ provisions had been made to construct service area. Further, after the 46 km of the Southern Expressway there were no any service area is available for the expressway users.	Required inputs have not been included in the Contract BOQ of ESEP 1.	Action should be taken to facilitate service area.
(c)	The separate pay items had been made in the Bill of Quantities of road rehabilitation works by allowing contractor to recover the cost of providing performance security, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance guarantee at cost of respective contractor. Accordingly, a sum of Rs.322.8 million had been paid additionally up to the 31 December 2021 by exceeding the BOQ value by Rs.97.82 million to the contractors to reimburse the cost of performance security bonds.	In the Contract BOQ, allow for cost of providing Performance Security and all other necessary bonds have been given under Pay Item 107 (2). This item was included as a provisional sum.	Bidding documents should be prepared accurately.

- (d) According to the Sub Section 1.10 of the Special Conditions of Contract for consultancy services of the Project, in case of corporate tax, reimbursement will be done through a Provisional Sum item, if proof of payment to the Inland Revenue is submitted. Due to inclusion of such unfavorable conditions in the consultancy agreement, the corporate tax claimed by the Consultant amounting to Rs.53.32 million had been shown as a liability in the financial statements as at 31 December 2022.
- As per the signed agreement with the Consultancy firm, relevant corporate tax to be reimbursed and accordingly it had been claimed by the Consultant. Therefore, an amount of Rs. 53.32 million had been shown as a liability in the financial statement.
- Agreement has to be prepared to minimise undue benefits to the contractors.