

Central Expressway (Kadawatha - Meerigama) Project section I - 2023

The audit of the financial statements of the Central Expressway Project section I (kadawatha – Meerigama) Project for the year ended 31 December 2023 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 of the loan agreement No. (2018) 17 TOTAL (474) dated 22 March 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the EXIM Bank of China. My comments and observation which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the loan agreement 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 objectives of the Project are Execution and completion of construction work of central Expressway Section 1 from Kadawatha to Meerigama. The estimated total cost of the Project was Rs. 176,785 million (Revised) and out of that US\$ 989.448 million equivalent to Rs. 134,628 million was agreed to be financed by EXIM Bank of China. The project had commenced its activities on 15th September 2020 and scheduled to be completed by 14th September 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 2 of this Project.

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 scepticism 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

No	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	Loan interest which was incurred by the Road Development Authority on behalf of CEP 1 was Rs. 21,964.69 million. However, the project had not recognised aforesaid interest cost in the financial statement as at 31 December 2023 as per the requirements of paragraph 18 of SLPSAS 4- Borrowing Cost. As a result work in progress had been understated by that amount.	21,964.69	1.2 (a) Not Agreed. Road Development Authority (RDA) has signed loan agreement of Consultancy Service with BOC on behalf of CEP - 1. However CEP - 1 did not bind for repayment of loans or payment of interest as CEP – 1 has not signed any loan agreements. After completion of the CEP – 1 Project will transfer the said assets to RDA, and thereafter interest cost incurred on behalf of CEP – 1 will be capitalized in RDA books of accounts.	Accountant should ensure that Sri Lanka Public Sector Accounting Standards are followed before certifying the Financial Statement.

3. Physical Performance

3.1 Physical Progress of the activities of the project

Component	As at 31 December 2023		Audit issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Units / Percentage	Units / Percentage		
Package I Kadawatha to Kossinna	100	39.65	Adversely affect the timely completion of the Project and delay the achievement of its objectives.	The EXIM Bank of china has stopped the disbursement of the loan.
Package II Kossinna to Meerigama	92.07	35.37		
Response of the Management	Agreed.			
Auditor's Recommendations	The work plan should be amended with proper approval as per the conditions of contract.			

3.2 Observations made on site visits

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	The first Section of the outer circular highway from Kadawatha to the starting point ch 0+000 to ch 0+500 was supposed to be carried out in 2015. However, the procurement procedure had not commenced even up to 31 December 2023.	Initially, the construction of the first 500 meters from ch 500 of the road under the OCH project was proposed to be done by the Outer Circular Road Project OCH, but as the loan agreement of that project expired, the construction work was assigned to the CEP-1 project. For that, an estimate and tender documents have been prepared and a request was made from the External Resources Department through the letter dated MOH/ADS/ENG/CEP1-Gen 2023.03.17 about how to procure funds for the construction. However the fund arrangement is not finalized yet.	Priority should be given to completing the section from Kadawatha to the starting point ch 0+000 to ch 0+500.
(b)	Physical progress of the construction of Embankment fill and cut was expected to achieve a target of 100 percent and it was observed that the achieved progress of Embankment fill was 62.2percent and 23.8 percent respectively as at 31 December 2023 under package 1 and package 2. As well as the actual progress of construction of Embankment cut was 56.1percent and 33.6 percent respectively as at 31 December 2023 under package 1 and package 2.	Agreed Due to the delay of releasing the funds by the EXIM Bank of China, works related to embankment filling and embankment cutting were delayed. However, after releasing funds, the Contractor will continue with the work.	Action should focus on the contract administration process to avoid extra payment.
(c)	The construction of viaducts was scheduled to be completed by 31 December 2023 under package 1 and package 2 and overall actual physical progress as at 31 December 2023 was 63.5 percent and 41.47 percent respectively due to non-availability of Funds.	Agreed As mentioned in Section 1.2.1 (j) ii, the release of the funds for the project was delayed. Therefore, the viaduct construction works were also delayed. However, after the fund release to the Contractor from the EXIM Bank, Contractor will continue with the balance work.	Action should focus on the contract administration process to avoid extra payment.

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| (d) | Six overpass constructions were scheduled to be completed by 31 December 2023 under package 01 and it was observed that the actual progress was 12.1 percent as at 31 December 2023 as per the progress reports submitted by the project and it was observed that the construction of OP-01, OP-02 and OP-03 had not been started at the date of field inspection. | Agreed
Due to the delay of releasing the funds by the EXIM Bank of China, overpass construction works were delayed. However, after releasing funds to the Contractor, he will continue the work. | Action should focus on the contract administration process to avoid extra payment. |
| (e) | Three interchanges namely Gampaha, Weyangoda and Mirigama were identified to be constructed under the project, and it was observed that none of any constructions of those interchanges had been started on that date. | Agreed
As mentioned in section 1.2.1 (j) vi, release of the funds for the project was delayed. Therefore, the interchange construction works were delayed. However, after the fund release to the Contractor from the EXIM Bank, Contractor will continue the work. | Action should focus on the contract administration process to avoid extra payment. |
| (f) | The overpass had designed to construct over the expressway at the Kaleliya - Medagampalitiya road (B 183) near Pallewala town in original design. The acquisition of the required land for this purpose had already been completed and the preliminary studies had carried out. However 05 alternative proposals had been identified under Cabinet Paper No 12/2023 on 23 March 2023 to change the appropriate structural plans of this place due to the protests of Trade Association of Mirigama Pallewala and communities regarding the construction of original plan. The 04th proposal of this cabinet paper was approved by Cabinet Decision No. අමප/23/0628/608/046 on dated 18 April 2023 to construct a viaduct on poles from a distance of 640 meters of the relevant place. further It was observed that, an expenditure of Rs. 2,590 million will have to be incurred in additionally compared with the original plan. | Agreed.
It was discussed at length in the PSC meeting held on 22.02.2023, in which it was proposed to take the opinion of the Cabinet Ministers by taking into consideration the current situation in the country and the need to hand over the land in this section to the Contractor urgently. Accordingly, by the decision of the Cabinet of Ministers dated 18 th April 2023 and No. AMAPA/23/0628/608/046 to construct a 640 meters length viaduct for the section where the Kaleliya - Medagampitiya (B 183) crossing is located in the Kadawatha - Meerigama road section (Ch 28+540) approval was granted. Therefore, the Contractor will carry out the construction works accordingly. | Action should be taken to focus on the social impact assessment before awarding the contract. |

- (g) It was observed that serious technical issues such as excessive longitudinal chambering could arise in post tensioned precast beams on site and there is no way to control it until the beams are placed on the respective structures and the diaphragm walls are constructed as per the approved drawings. There are 554 beams onsite which are liable to have this issue. As well as, corrosion of exposed reinforcement of partly constructed structures could be a serious issue although temporary protective have been taken by the contractor due to the abundant of the construction. Hence, it will be an additional cost to the project in future. . In addition, that 03 nos of PC Girders have collapsed (1 Girder fallen down and 02 Girders titled) at VD 10 P1-P2 location on 04 May as per information furnished by audit. The Project director had requested from secretary of line ministry to appoint a committee to get a independent investigation report in this regard. However, any approval had not been received for the committee and any necessary steps had not been taken to conduct an independent investigation so far.
- Agreed
- Due to the economic problem and shortage of foreign exchange in the country, paying of the Contractor's monthly bills has been temporarily suspended. Therefore, the Contractor has stopped the construction work from 11.08.2023. So the beam installation works were also delayed. However, once the funds are received to the Contractor, he will carry out the work expeditiously.
- A formal investigation should be conducted covering the contract administration process, civil construction ,design and environmental aspects,
- (h) The soil filling on both sides of the culvert construction had not been done and the construction works of the culverts were stopped in midway this situation was badly affected to the public.
- Agreed
- Due to the economic problem and shortage of foreign exchange in the country, paying of the Contractor's monthly bills has been temporarily suspended. Therefore, the Contractor has stopped the construction work from 11.08.2023. So the culvert construction and backfilling works were also delayed. However, once the funds are received to the Contractor, he will carry out the work expeditiously.
- Safety procedures should be implemented until the project commences to protect both public and construction site.

3.3 Matters in Contentions Nature

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	<p>The construction of contract of Package 01 had been awarded for Rs.12,586 million and Engineer Estimate was Rs. 9,834million according to that contract sum was exceeded by 28 percent compared to the Engineer Estimate. As well as, the construction contract of Package 02 had been awarded for Rs.145,799 million and the Engineer Estimate was Rs.118,977 million. Therefore, the contract sum had been exceeded by 23 percent compared to the Engineer Estimate. However, action had not been taken to analyses the rate variances as per the section 7.9.2 of the Government Procurement Guideline. In addition to that those contracts had been awarded as unsolicited proposals without following competitive bidding process as per the section 3.1 of Government Procurement Guideline. Moreover, that situation was adversely affected to overrun the project cost.</p>	<p>Agreed.</p> <p>The steps were taken to carryout negotiations with the Contractor to reduce the rates and the contract sum with the Contractor to match with the Engineering estimate.</p>	<p>A Chief Accounting Officer should follow the proper procedure before submitting the cabinet paper.</p>
(b)	<p>As per the sub clause 14.7 (c) in the General Conditions of the Contract the certified amount in the final payment certificate has to be paid within 56 days after the employer receive the payment certificate and according to the sub clause 14.8 of general conditions for contract if the contractor does not receive payment in accordance with sub clause 14.7 (c) the contractor shall be entitled to receive financial charges compounded monthly on the amount of unpaid during the period of delay. However, unpaid interim payment certificated values amounting to Rs.40,347.78 million and USD 189.5 million had remained as due balance for two packages respectively until 31 December 2023</p>	<p>Agreed.</p> <p>But it shall be corrected as follows:</p> <p>The total amount due to the Contractor is Rs. 40,347.78 Mn and USD 189.5 Mn. Out of that package - 1 outstanding amount is Rs. 3,742.94 Mn & USD 17.0 Mn</p> <p>“As per the sub clause 14.7 (b) in the General Condition of the Contract the amount certified in each Interim Payment Certificate within 56 days after the Engineer receives the statement and Supporting documents.”</p>	<p>Action should be taken to minimise extra costs as per condition of contract.</p>

Further financial charge due to the delay to be corrected as Rs. 681.340 Mn and USD 0.401 Mn for package 01. These claims are under review.

Agreed

- (c) The project had predicted that the total cost estimate would increase from Rs. 158.39 billion to Rs. 450.35 billion by September 2026 due to an increase in the exchange rate and the of price rate, and project had requested cabinet approval for revision of cost estimate. However, cabinet approval had not been taken to revise of cost estimate as at 31 March 2024. Thus, it was observed that project cost will be increased due to delay of non-availability of funds. Delaying the project will adversely affect to the overall quality of the constructions in the long run as well. Further It was observed that when preparing the revised cost estimates, a revised work program was not prepared simultaneously.
- It has been submitted reports and carried out presentations in the important meetings such as NOR and PSC meeting mentioning the importance of the project and try our best to recommence the project as soon as possible. After the funds are received from the EXIM Bank of China, rectifying and repairing works will be carried out expeditiously through the Contractor.
- Employer should ensure that revised cost aligns with evaluation criteria
- Further, since it is difficult to predict the fund receiving date for the project and it is difficult to prepare a revised programme related to the works.
- (d) In addition to that, the project had paid Rs.500 million as special advance to the contractor by using GOSL fund during the year under review based on instructions of the National Operations Room meeting held on 02 October 2023 to mitigate the risk associated with possible contract termination. Further it was observed that advance payment may be finance burden to GOSL in future.
- Agreed.
- Special Advance payment of Rs. 500 Mn funded through GOSL to support the liquidity issue faced by the Contractor. Once the IMF negotiations over, Contractor will be funded by Exim Bank and then Contractor will be able to survive himself. Special advance payment has been made to mitigate the risk associated with the possible contract termination and subsequent claims also.
- Proper evaluation should be coordinated before taking a decision on whether to terminate or continue the Project.

3.4 Issues relating to the Land Acquisition

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	Although 5,245 lots of lands had already been acquired under the Gazette notice of 38(a) as at 31 December 2023. The Project had registered only 1377 lots of lands in RDA as per Section 44 of Land acquisition Act until the end of the year under review.	According to the latest progress report, 1377 nos of Section 44 has been issued by the divisional secretariat. Project officials discussed with DS officials and provided facilities to expedite the work. Additionally, the divisional secretariat was informed of the importance of this work at the ministry level. As a result, the divisional secretariat expedited the work, and the remaining Section 44 issuing work is in progress	Action should be taken to expedite the land acquisition process and proper record should be maintained.
(b)	Interest expense of Rs1,121 million had been identified due to delay in process of land acquisition and it will be directly affect to overrun the project cost.	Agreed The recorded interest provision as at 31.12.2023 was Rs. 220.45 Mn and Rs. 105 Mn recorded as interest expense for the year 2023. This is due to unavoidable delays including the delays in land acquisition process.	Action should be taken to expedite the land acquisition process to avoid further interest payment and proper record should be maintained.

3.5 Idle/Unutilized/Underutilized Resources.

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	Although the USD 989.44 million equivalent to Rs.134,628 million agreed to be financed by the Lending agency, only a sum of USD 51.57 million equivalent to Rs.13,266 million representing 5 percent of the funds had been utilized as at 31 December 2023 and no any disbursement had not been made during the year under review even after laps of 04 years from the commencement date of the activities of the Project. As a result, commitment charges aggregating US\$3.1million equivalent to Rs.622.95 million representing 0.3 percent of total allocation USD 989.44 million had been paid by the Government on behalf of the undisbursed balance of the loan up to 31 December 2022 and no any commitment fee had not been paid during the year under review.	Out of EXIM bank loan of USD 989.44 only USD 51.57 million disbursed to the Contractor in the year 2022. Due to non-finalization of IMF debt restructuring program, it is not restarted to disburse the foreign loan yet. CEP-1 does not have any correspondences regarding payment of commitment fees, since such payments are made by the Treasury from separate vote code	Proper coordination and reporting systems should be maintained with the treasury and Chief Accounting Officer should take necessary steps as per agreement to minimise commitment charges in the current situation.

3.6 Matters pointed out in Previous Audit Reports which remained unresolved

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	Mobilization advance of Rs.755 million under local component and USD 7 million under the foreign component had been paid to the Package 01. However, Project had not been recovered any amount of mobilization advance up to 31 December 2023. Further, mobilization advance of USD 161 million had been paid to the Package -02 and Project had recovered only USD 10 million as at 31 December 2023 due to slow progress of the contractor.	(g) Agreed. As per sub clause 14.2 (c) Particular Conditions of Contract (PCC), Advance Payment deductions shall commence in the next Interim Payment Certificates for package 1 following that in which the total of all Interim Payments certified to the Contractor has reached 30 (Thirty) percent of the Accepted Contract Amount. The recovery of the advance payment for package 2 already started and recovered USD 10,810,145.81.	An employer should evaluate the adverse impact of as per condition of contract and take necessary action to avoid it.
(b)	According to the BOQ item 1001 (7) of interim payment certificate No.18 cost of Rs.750 million had been allocated for the construction of temporary roads or pilot roads. However, Rs.981 million had been recommended to be paid without approval of the variation committee.	Not agreed. The amount allocated for the construction of service road (Pilot Road) for the Package I and the Package II of the project is 750 million rupees and 135 million rupees respectively. Accordingly, the amount allocated for the entire project is Rs. 885 million. Although the estimated amount for the years 2015 and 2016, as this work is included under Provisional sum, the payment is made based on the market price according to the time when the work is done.	The engineer should obtain approval for any variations before approving the payment.