

## **Central Expressway Project Section II - 2017**

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The audit of financial statements of the Central Expressway Project Section II 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.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

The Executing and Implementing Agencies of the Project then the Ministry of Highways, Ports and Shipping, presently the Ministry of Highways and Road Development and Petroleum Resources Development and the Road Development Authority respectively. The objective of the Project is to ensure high mobility between regions by constructing an Expressway of 39.29 kilometres of the section from Mirigama to Kurunegala to reduce vehicle maintenance and operating costs, travel time, accidents and improve the passengers comfort. The construction works of the Expressway had been divided in to 04 sections and awarded the contracts to the local construction companies. The estimated total cost of the Project amounted to Rs. 148,520 million and decided to finance by the General Treasury of Sri Lanka through loans obtained by Local Licensed Banks and or locally operated International Banks. The contract agreements were signed in December 2016 and commenced the activities in January 2017. The activities of the Project are expected to be completed in July 2019.

### **1.3 Responsibility of the Management for the Financial Statement**

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 following.

- (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, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project.
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

## **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 Deficiency**

Interest on compensation on land acquired aggregating Rs. 334.50 million payable as at 31 December 2017 had not been brought to the financial statements. Further, a sum of Rs. 292 million payable to the contractors engaged in civil construction works had also not been brought to account as at 31 December 2017.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

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

Source	Amount agreed for financing in the Loan Agreement	Allocation made in the Budget Estimate for the year under review	Funds utilized	
			during the year under review	as at 31 December 2017
	Rs. million	Rs. million	Rs. million	Rs. million
GOSL	-	2,140	1,115.50	1,259.80
Peoples Bank Loan	12,000.00	-	12,000.00	12,000.00
National Saving Bank Loan	13,017.70	-	13,017.70	13,017.70
Sampath Bank Loan	5,837.50	-	5,837.50	5,837.50
<b>Total</b>	<b><u>30,855.20</u></b>	<b><u>2,140</u></b>	<b><u>31,970.70</u></b>	<b><u>32,115.00</u></b>

### 3.2 Contract Administration

The following observations are made.

- (a) The Interim Payment Certificate valued at Rs. 345.90 million or more representing 01 per cent of the total value of the contract should be taken into evaluation and certification of works done, as per the sub clause 14.6 of the Conditions of Contract. However, it was observed that the Interim Payment Certificates valued at the range from Rs.128.2 million to Rs.292.2 million had been evaluated at 04 instances of the year under review, contrary to the above mentioned requirement.
- (b) It was observed that the proper ground surveys had not been carried out by the Project at the initial stages and the rocks located at 57+000 kilometre to 62+330 kilometre and 63+950 kilometre to 69+500 kilometre were allowed to excavate by the respective contractor. Therefore, 267,828 m<sup>3</sup> of metal had been produced and out of that 170,909 m<sup>3</sup> of metal had only been utilized for the road construction purpose.
- (c) It was observed that the sites for road construction purposes under 04 contract packages had been handed over with delay, due to several reasons such as delays in acquisition of lands, changes of the scope of works and designs etc. However, the mobilization advances aggregating to Rs.15,217.8 million had been released quarterly during the year under review, allowing rooms to the contractors for additional financial gains. Further, according to the progress reports, the contractors involved in road construction works under 03 contract packages had not deployed necessary machineries and equipments for road construction works even at the date of inspection on 10 January 2019.
- (d) According to the initial road construction plans, via duct bridges of 5.11 kilometres and 123 culverts scheduled to be constructed was subsequently increased up to the via duct bridges of 8.9 kilometres and 167 culverts without being carried out proper hydrological studies. Further, the concurrence of the Road Development Authority, Department of Irrigation and Farmers' Organizations etc, had not been obtained for the respective changes.