

Central Expressway Project (Phase III) - 2017

The audit of financial statements of the Central Expressway Project (Phase III) 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

This Project is executed by the Ministry of Highways and Road Development and implemented by the Road Development Authority. The objectives of the Project is to construct the Central Expressway to ensure high mobility between regions, increase road safety and reduce travel time, traffic congestion, costs on vehicle operation and maintenance and environmental pollution. The construction activities of the Central Expressway is scheduled to be implemented from Kadawatha to Dambulla, under 04 phases with a link road of 34.14 kilometres from Pothrera in Kurunegala to Galagedara in Kandy. This report contains the audit observations on the financial statements for the year ended 31 December 2017 of the Central Expressway Project (Phase III) implement for the construction of the section of the Central Expressway from Pothuhera to Galagedara.

1.3 Responsibility of the Management for the Financial Statements

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 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 Deficiencies

The following observations are made.

- (a) The interest on compensation on acquisition of lands aggregating to Rs.92.3 million payable as at 31 December 2017 had not been brought to the financial statements.
- (b) A sum of Rs 161 million claimed under a variation order by a firm of Consultants engaged to carry out feasibility studies of the Project in 2014 had been accounted under the work-in progress without considering the legal validity of the respective claim made.

Further, the balances aggregating Rs 152.60 million had been continuously shown in the financial statement as payable to the respective Consultant since 2014, eventhough the Interim Payment Certificates thereon had not been certified by the authorized parties.

- (c) In addition, a sum of Rs 31.60 million payable as at 31 December 2017 on feasibility studies carried out by the local Consultants had not been brought to the financial statements.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the information received, an allocation amounting Rs 2,550 million made through the domestically financing sources in the Budget Estimate of the Line Ministry for 2017 to implement the activities of the Project. Further, out of a loan obtained by Road Development Authority in 2014 from a Licensed Specialized Bank, an allocation amounting to Rs 400 million had been made to implement the activities of the Project. In addition, the Road Development Authority had allocated a sum of Rs.913.60 million to the Project for land acquisition purposes, out of another loan obtained from the same Licensed Specialized Bank in 2017. According to the financial statements, a sum of Rs 3,266 million had only been utilized at the end of the year under review, out of the above mentioned allocations made.

3.2 Physical Progress

The activities under the Central Expressway had been launched with the approval of the Cabinet of Ministers on 16 July 2015 to amend the proposal on construction of the Northern Expressway under the National Master Road Plan prepared for the period from 2007 to 2017 and construct the Central Expressway from Kadawatha to Dambulla with the link road from Potuhera to Galagedara. According to the information received, the feasibility study had been carried out by a Australian firm of Consultants since 2013 for the construction of the Northern Expressway and the Central Expressway. However, the final report on respective feasibility study had not been made available for audit. According to the information made available, the Project had taken action during the year under review to award the contracts to 02 local universities and a public Corporation to prepare a feasibility compilation report and carry out an environmental impact assessment. Further, the Project had initiated action during the year under review to select a consultant and a contractor to implement the activities of the Project. However, the formal agreements thereon had not been signed even as at 31 July 2018.

3.3 Issues on Acquisition of Lands

Eventhough 662 plots of land of 63 hectares had been acquired by the Project as at 31 December 2017 for road construction purposes, time plans to complete the land acquisition activities in timely manner had not been prepared and maintained by the Project for monitoring purposes.

3.4 Human Resources Management

It was observed that 03 local Consultants had been appointed by the Project during the year under review, without obtaining the approval for Department of Management Services and remuneration and other allowances aggregating Rs.11.8 million had been paid them during the year under review.

3.5.1 Issues on Financial Controls

It was observed that the values of 47 items of equipment transferred from other Project management Units and Road Development Authority remained in use by the Project had not been determined and shown in the financial statements. In addition, 600 items of fully depreciated equipment had remained in use by the Project at the end of the year under review without taking action to determine the real useful lives and shown the fair values of the respective assets. Further, according to the Annual Board of Surveys carried out for the year under review, the shortages of 29 items of assets had been reported and no action had been taken to investigate it.