

Central Expressway Project Section II - 2018

The audit of financial statements of the Central Expressway Project Section II for the year ended 31 December 2018 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

According to the decision of the Cabinet of Ministers arrived at its meeting held on 08 July 2015, the construction works of the Central Expressway executed by then Ministry of Highways, Ports and Shipping, presently the Ministry of Roads and Highways and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to ensure high mobility between regions by constructing Section of the Expressway of 39.29 kilometres from Mirigama to Kurunegala which reduced vehicle maintenance and operating cost, travel time, accidents and economic development, improve social and recreation facilities and passengers comfort. As per the information available, the estimated total cost of the Project amounted to Rs.148,521 million and decided to finance by the General Treasury of Sri Lanka through loans obtained by local Licensed Banks and locally operated International Banks. The contract agreements were signed in December 2016 and commenced the operations in January 2017 and expected to complete in July 2019.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting standards.

1.4 Basis for 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 Deficiency

Accounting Deficiency	Impact	Comments of the Management	Auditor's Recommendation
Interest on compensation for acquisition of lands amounting to Rs. 429 million payable as at 31 December 2018 had not been brought to account.	Understatement of assets and liabilities.	Audit observation is admitted. This cost will be duly incorporated into the financial statements for year 2019.	The financial position at the end of year need to be reflected in the financial statements.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

The construction works of the Section II of the Expressway subdivided in to 04 contract packages and awarded to a Consortium of local contractors had been commenced in February 2017. According to the information received, the structural works of the Expressway consisted with 38 under passes, 6 over passes, 12 bridges, 36 via ducts and 106 culverts and out of that the construction works of 19 under passes and 72 culverts had been completed as at 31 December 2018. The progress of other structural works had remained at designing stages as at that date. It was observed that the expected dates of completion of the contracts had been revised in 02 instances for the period ranging from 135 days to 181 days, due to several reasons such as delays in possession and handing over of the construction sites and preparation of designs and drawing with possible increases of additional costs on price fluctuations and delay charges. Out of the estimated total cost of the Project amounted to Rs. 148,520 million financed by the General Treasury through loans obtained by local Licensed Banks, a sum of Rs.59,510 million had been utilized as at 31 December 2018.

3.2 Issues on Land Acquisition

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
According to the land acquisition plans, 4,778 plots of land including 786 plots of crown land were expected to be acquired under the Section II of the Central Expressway and out of that the compensation amounting	Probable additional costs, due to delays in completion of land acquisition process.	Audit observation is factually correct. The land acquisition is a joint effort by several state agencies who carry out these tasks in addition to their respective regular duties. The 18 months period for completion of whole land	Action need to be taken with the assistance of other institutions to speedup land acquisition process.

to Rs. 6,305 million had been paid as at 31 December 2018 to acquire 3,419 plots of land. Further, the process of acquisition of lands expected to be completed by June 2018 and incentives for the staff thereon and other expenses amounting to Rs.101.5 million had been incurred as at 31 December 2018.

acquisition process is based on the priority given by them to the land acquisition. However, despite valiant efforts by these Agencies, some of practical difficulties such as ignorance, protests, reluctance and appeals of the general public etc attributed to the delays.