

Extension of Southern Expressway Project - Section 2 -2019

The audit of financial statements of the Extension of Southern Expressway Project – Section 2 for the year ended 31 December 2019 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, then Ministry of Ports and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the Project is to provide a link between the proposed Hambantota International Development Hub project, commercial capital, Hambantota International Harbor and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota. As per the Loan Agreement, the estimated cost of the extension of 26 km of Southern Expressway from Beliatte to Wetiya under Section - 02 of the Project amounted to Rs.60,601.60 million and out of that 85 per cent of the cost of US\$ 360.29 million equivalent to Rs. 46,920 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance 15 per cent of US\$63.58 million was agreed to be financed by Hatton National Bank of Sri Lanka. The activities under the Section - 02 of the Project had been commenced on 28 October 2016 and scheduled to be completed by 27 October 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 2019 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.

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 Deficiency

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendation
The provision for the delay interest need to be paid for land acquisition as at 31 December 2019 had not been made according to Sri Lanka Public Sector Accounting Standards No 08.	Understatement of assets and liabilities.	Necessary actions will be taken for the delay interest need to be paid on land acquisition as at 31 December 2019.	Provisions should be made according to the Sri Lanka Public Sector Accounting Standard No.08.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	A sum of Rs.100.83 million had been incurred to construct a temporary interchange at Badigama at the time of opening the expressway to the general public which was not identified as a location to setup an interchange in feasibility study report.	Possibility to increase the cost of the project.	The Cabinet of Ministers has approved the construction of an interchange at Badigama using the Contract savings subject to the concurrence of the Exim Bank	All requirements should be considered in future project planning.
(b)	It was observed that four major BOQ items such as side drains, Distance Plates and direction boards, grassing and slop protection and lighting had not been completed around 95 per cent at the time of open the expressway to the General Public.	Possibility to incur additional cost due to delay in balance works completion.	Completion of the side drains, grassing & slope protection, distance plates and direction boards and lighting at the time of opening the expressway were delayed due to the COVID 19 pandemic situation, curfew and travel restrictions.	Necessary action should be taken to speed up the balance works.

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| (c) | The issuance of the Taking Over Certificate before the completion of 2737 snags and 1887 outstanding civil work items to the satisfaction of the project engineer according to the Special Terms of the contract was questionable in the audit. | Possibility to incur additional cost due to delay in balance works completion. | The Engineer's action to issue the TOC with long snag list of minor items in February 2020 just before the pandemic period prompted avoidance of contractual repercussions from COVID 19 pandemic. | Necessary action should be taken to speed up the balance works. |
| (d) | Though the project management had planned to complete the defects and balance work items which are recognized at the time of issuing taking over certificate by the end of September 2020, most of those items were not completed. It may indicate that, considerable attention had not been drawn to complete the defects and balance works from the contractor on time. | Possibility to incur additional cost due to delay in balance works completion. | The Contractor attended to complete the defects and balance work during the Defects Notification Period despite of the COVID 19 pandemic impact. | Necessary action should be taken to speed up the balance works. |

3.2 Contract Administration

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Although two locations of Service Areas have been mentioned in the feasibility report, it had not been estimated and BOQ provisions had not been made to construct service areas. Further, after the 46 km of the Southern Expressway there were no any service area is available for the highway users.	Providing services to passengers travelling 176 km from Welipenna to Hambantota was in a problematic situation.	None of the ESEP Contract BOQ has made provisions to construct the service area through the civil works Contracts at the conceptual stage.	Required provisions should be get arranged for the construction of service areas for the Southern Expressway Extension Project.
(b)	A sum of Rs.347 million had been paid additionally to the contractor to reimburse the cost of performance security up to December 2019 by exceeding BOQ amount of Rs.225 million.	Undue advantage for contractors.	The actual cost of providing the PS had increased due to the subsequent extension of time for the Contract completion.	The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

(c) It was observed that contractor had obtained abnormal advantages by keeping the exportable items valuating US\$ 10,363,385 at the end of the contract by avoiding re-exporting or payment of taxes.

Undue advantage for contractors.

The Contractor was able to catch up the lost progress of ESEP-Section 02 by mobilization of equipment and machinery which were imported for ESEP-Section 03 until completion Section 2.

Action should be taken to re-export or to pay taxes at the end of the project.