

## **Extension of Southern Expressway Project – Section 4 - 2019**

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The audit of financial statements of the Extension of Southern Expressway Project – Section 4 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**

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According to the Loan Agreement of the Project, then the Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The main objective of the Project is to have a link between the commercial city (Colombo) and newly constructed Sea Port (Hambantota) and International Airport (Mattala) by extending the already functioning Southern Expressway (Colombo to Matara) from Matara to Hambantota. The estimated cost of the extension of 25km of Southern Expressway from Mattala to Hambantota via Andarawewa under Section 4 of the Project amounted to Rs. 55,965 million and out of that US\$ 435 million equivalent to Rs.55,615 million was agreed to be provided by the Export Import Bank of China for the civil and consultancy works. The balance amount of Rs.350 million is expected to be financed by the Government of Sri Lanka. The construction works of the Project had been commenced on 19 January 2016 and scheduled to be completed by 19 January 2019 and subsequently extended up to 09 July 2019.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my report, 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 Qualified Opinion**

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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**

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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

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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

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### 2.1 Accounting Deficiencies

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No	Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a)	The mobilization advance had been recovered subjected to an Amicable Settlement Committee decision dated 19 June 2019. As a result, a loss of Rs.132 million had occurred and it had not been transferred to work in progress	Possibility to incur additional cost to the Project.	This amount has been transferred to work in progress in the Financial Statement for the	Action should be taken to decide the exact foreign exchange rate when arriving the future contracts.

and shown under current assets in the statement of financial position.

year 2020 on the approval from the Ministry of Highways.

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| (b) | Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision had not been made for the interest on delay in settlement of compensation payment amounting to Rs.16 million as at December 2019.  | Understatement of assets and liabilities. | Agreed. | Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08. |
| (c) | As per Sub Clause 14.7 and 14.8 of General Conditions of Contract, the contractor had requested an amount of Rs.330 million and Rs.98 million as the claim on delayed interest and interest on delayed interest respectively. However, the probable liability had not been either recognized or disclosed in the financial statements. | Understatement of assets and liabilities. | Agreed. | Provisions need to be made as per Sri Lanka Public Sector Accounting Standards 08. |

### 3. Contract Administration

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The following observations are made.

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a).	The Project Director positively proposed on 19 October 2019 to use the buildings constructed for the project at a cost of Rs.106 million as a Capacity Development Center of the Road Development Authority. However, the Board of Directors of the Road Development Authority had not approved this proposal up to 08 January 2021.	Possibility to misuse of buildings.	A part of the office premises has been handed over to the Road Development Authority to use as stores and Laboratory equipment with one Building was handed over to Provincial Director (southern) for quality Control work of the province. The balance was allocated for the establishment of the Capacity Building Centre for RDA and the approval process is in progress.	When constructing permanent buildings for the project activities, there should be an initial plan of the intended use of those buildings at the end of the project.

- (b). According to the Sub-Clause 20.6 of General Conditions of Contract mentioned as arbitration may be commenced prior to or after completion of the works, Therefore, 3 disputes claims amounting Rs. 509 million are still open for arbitration after issuance of Notices of Dissatisfaction and the entitlement for the contractor could not be finalized even after expiry of 06 months from the completion of defect notification period of the Project.
- Possibility to incur additional cost due to lack of specific time period.
- The Contractor is not being informed us for the commencement of the arbitration and wailing for where DAB had given decision unfavorable to Contractor and we are not in a position to start arbitration process.
- After issuing a notice of dissatisfaction, a specific time limit should be included in the Specific conditions for the commencement of the arbitration.
- (c). Though the notice of Section 38(a) had been published on 15 January 2018, compensation for 05 lots of land belonged to the Divisional Secretariat Hambantota had not been paid even by 13 January 2021.
- Possibility to incur additional interest cost.
- The compensation was not paid for 5 lots due to not accepted valuation by the land owner of the said lots. Hence, this matter was referred to the Compensation Review Committee and continuously follows up by Land Division of the RDA.
- Necessary actions should be taken to speed up the land acquisition process.
- (d). The re-exportable items amounting to US\$ 1,415,215 relating to 31 permits had been transferred to Colombo Port City Development Project in the year 2018. However, a request from that project director or confirmation for receipt of assets had not been submitted for audit.
- Possibility to misuse the assets.
- A reminder has already been sent to the Contractor by requesting furnish the evidence for this transfer to send to the Auditor General.
- Action should be taken to confirm the receipts of those assets from the Colombo Port City Development Project.
- (e). A sum of Rs.1.9 million had been incurred for the construction of two additional weighing bridges for tall gates at Mattala and Hambanthota interchanges under a variation order. Eventhough, it had passed 10.5 months from the construction, it had not been utilized up to the date of audit on 06 January 2021.
- Possibility to erosion of assets without using.
- Those weigh bridges had been handed over to the Expressway Operational and Maintenance Division and they will be used when need arises.
- Action should be taken to utilize all the constructions.

- (f). As per Sub Clause 101.10 of the Technical Specification, survey equipment & consumable items should revert to the employer at the end of the project and Rs. 7.4 million had been paid for the supply of survey equipment for engineer as a provisional sum payment item. However, the Project had not maintained registers and keep records with the value of those items.
- Accuracy of the assets handing over at the end of the Project cannot be ascertained.
- The consultant was maintained the details records of the Assets purchased and supply by the Contractor. These total assets had been duly handed over to RDA at the completion of the project.
- Proper records should be maintained for all assets.
- (g). A sum of Rs.3,000 million had been allocated for item 27 in the bill No 900 of the construction of a bus & railway transit terminal. Although the Project had completed, no action had been taken to construct transits. Further, this proposal had been cancelled and included in the revised BOQ with the intention of using such saving for another work of the Project.
- Possibility to incur commitment fee on unused loan amount.
- Since the Urban Development Authority had not given its approval for the construction of this railway and bus terminal, it was not implemented and the money was saved at the end of the Project without spending for any other purpose.
- Bill of Quantities should be properly evaluated.