

Extension of Southern Expressway Project – Section 3 -2019

The audit of financial statements of the Extension of Southern Expressway Project – Section 3 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 Agreements, then the Ministry of Higher Education and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The Extension of the Southern Expressway- Section 03, the total length is approximately 15 kilometres from Wetiya to Andarawewa. The main objective of the Project identified as one of the key components in the development of the road network to support and facilitate the activities of the Hambantota International Hub Development. The proposed Extension of the Southern Expressway had been divided in to four sections such as Matara to Beliatte (Section 01), Beliatte to Wetiya (Section 02), Wetiya to Andarawewa (Section 03) and Mattala to Hambantota via Andarawewa (Section 04). As per the Loan Agreements, the estimated cost of the Section 03 was Rs. 36,174 million and the estimated total cost of the civil works US\$ 252 million equivalent to Rs. 31,574 million which was agreed to finance by the Export Import Bank of China. The activities of the Project were commenced on 25 January 2016 and scheduled to be completed on 25 January 2018. However, the date of completion of activities of the Project had been extended up to 30 June 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
Contrary to Sri Lanka Public Sector Accounting Standards No 08, provision had not been made for the delay interest need to be paid on land acquisition as at 31 December 2019.	Understatement of assets and liabilities.	Agreed. Necessary actions will be taken to pay for the delay interest to be paid on land acquisition as at 31 December 2019.	Provisions should be made in the financial statements as per Sri Lanka Public Sector Accounting Standard No.08.

3. Physical Performance

3.1 Contract Administration

The following observations are made.

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendation
(a)	Contractor had request to retain certain machineries worth of US\$ 5,060,994. However, there were no any documentary evidence related to the tax payments made by the Contractor.	Undue benefits to the contractor.	Contractor has confirmed that the Plant/Equipment will be disposed before 22nd February, 2021 to comply with the Contract. As the final certificate of ESEP Section 2 has not been certified yet, any defaulted custom duty or tax for the disposal of Plant/Equipment could be deducted from ESEP Section 2.	Action should be taken to pay taxes to the Government of Sri Lanka or re-export the machineries.
(b)	Extension of Southern Expressway Project-Section 02 had substantially completed on 25 February 2020 and also the defects notification period will be expired on 24 February 2021. In that situation, the project had transferred US\$	Undue benefits to the contractor by keeping exportable items without paying taxes.	Hence the Contractor was motivated to catch up the lost progress of ESEP-Section 02 with the mobilization of equipment and machinery which were imported for ESEP-Section 03 until	Action should be taken to pay taxes to the government of Sri Lanka or re-export the machineries.

10,363,385 worth of equipment to that project on 25 September 2019.

completion Section 2. The Section 2 was completed ahead of scheduled completion date.

- (c) The contractor had removed soil from the hills in violation of instructions from the Central Environmental Authority and the Geological Survey & Mines Bureau. This has created an insecure situation for five private landowners. The authorities have not taken any steps to rectify this situation. The supplier who had provided the soil by the landowners was not registered in the soil supply list of the project. Also, large pits in the lands of the Mahaweli Authority were filled with rain water due to non-repair.
- Environmental destructions and uncomfortable and unsafety situations could be arised.
- Geological Survey & Mines Bureau and Soil Committee were the authorities to give the approval for the mining licence. Hence the monitoring and rectification of barrow pits are beyond our purview.
- Action should be taken to minimise the environmental destructions and uncomfortable and unsafety situations.
- (d) The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance security, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract to obtain performance guarantee at cost of respective contractor. Accordingly, a sum of Rs. 99 million had been paid additionally to the contractors to reimburse the cost of performance security bonds.
- Undue advantage for contractors.
- The COC states that the Performance Security shall be provided at his own cost means that the submission of Performance security is a prerequisite to enter into a Contract between the parties after which the Contractor is subsequently entitled to receive the cost of Performance Security under LS item 1.2 (4) of the Contract BOQ.
- The review of Bill of Quantities needed to be done by the Procurement Specialist and the Technical Evaluation Committee, before issuing the bidding documents.

- (e) According to the feasibility studies of the Project, it was identified to construct service areas in the Expressway from Wetiya to Andarawewa. However, neither the action taken to design the service area nor make allocations in the Bill of Quantities of the Expressway to provide facilities for the users of the Expressway.
- General public will be suffered by travelling long distance (173km) from Welipanna to Hambantota without having service area.
- None of the ESEP Contract BOQ has made provisions to construct the service area through the civil works Contracts at the conceptual stage.
- Action should be taken to facilitate service area as soon as possible.