

Central Expressway I (Kadawatha - Meerigama) Project section I Project - 2022

The audit of the financial statements of the Central Expressway Project section I (kadawatha – Meerigama) Project for the year ended 31 December 2022 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 read in conjunction of the loan agreement No. (2018) 17 TOTAL (474) dated 22 March 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the EXIM Bank of China. My comments and observation which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the loan agreement of the project, the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are Execution and completion of construction work of central Expressway Section 1 from Kadawatha to Meerigama. The estimated total cost of the Project was Rs. 176,785 million (Revised) and out of that US\$ 989.448 million equivalent to Rs. 134,628 million was agreed to finance by EXIM Bank of China. The project had commenced its activities on 15th September 2020 and scheduled to be completed by 14th September 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 2 of this report.

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 scepticism 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 Deficiencies

| No | Accounting Deficiency / Audit Issue | Amount Rs. million | Response of the Management | Auditor's Recommendations |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| (a) | According to the Financial statement, The Project had only shown Rs. 23,001 Mn equivalent to the USD 169.45 Mn under the foreign component as mobilization advance as at 31 December 2022 instead of being recorded as Rs. 61,534Mn according to the section 26(a) of SLPSAS 5 – as a result, advance payment of civil work had been understated. | 29,263 | CEP-1 has been recognized the effect of the exchange rate increased at the time of advance payment and those are correctly recorded in the financial statements. However, we will take necessary steps to adjust mobilization advance by using the closing exchange rate in the next financial statements. | Adhere to the Sri Lanka Public Sector Accounting Standard. |
| (b) | In addition to that the foreign currency transaction relevant to the retention on civil work package 1 and 2 had not been complied with the above mentioned standard requirement. Therefore, exchange gain/loss relevant to the retention on civil work had not been recognized in the financial statements. Therefore, retention on civil work had been understated. | 2,872 | Retention on civil work package 01 and 02 will be recorded using the December 31st exchange rate in the next financial statements. | Adhere to the Sri Lanka Public Sector Accounting Standard. |
| (c) | The parity adjustment made by the General Treasury as at 31 December 2022 had not been brought to the financial statements of the project as per the paragraph 26 (b) of SLPSAS 5. As a result loan value of EXIM bank of China had been understated. | 5,458 | The relevant parity adjustment will be made in the next financial statements. | Adhere to the Sri Lanka Public Sector Accounting Standard. |
| (d) | According to the requirements of paragraph 18 of SLPSAS 4. Loan interest incurred by Road Development Authority on behalf of CEP 1, project had not been brought to the financial statement as at 31 December 2022. As a result work in progress had been understated. | 11,727 | After completion of the CEP-1, project will transfer the said asset to RDA, and thereafter interest cost incurred on behalf of CEP-1 will be capitalized in RDA books of accounts. | Adhere to the Sri Lanka Public Sector Accounting Standard. |

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|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| (e) | Exchange loss on civil work and consultancy service had been identified under the operating activities in the Statement of Cash Flow as at 31 December 2022 instead of being recorded as per the Section 39 of Sri Lanka Public Sector Accounting Standards 4. | 4,889 | Exchange loss will show under changes in cash & cash equivalent from the next financial year. | Adhere to the Sri Lanka public sector accounting standard |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------|

2.2 Non-compliance with Laws, Rules and Regulations.

| Reference to the Laws Rules and Regulations | Non Compliance / Audit Issue | Response of the Management | Auditor's Recommendations |
|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| (a) According to the Section 2.3.2 of Management Service circular No. 01/2019 dated 15 March 2019, | The Project Director should always be recruited on full time basis in order to ensure effective Project Management. However, the Project director had appointed as an acting basis | In 2022, new recruitments were limited and it was decided to carry out the remaining tasks by deploying experienced officer on acting basis. | Action should be taken to comply with the Management Services Circular. |
| (b) As per the paragraph 9.3 of Management Services Circular No.01/2019 | Although the secretary to the line ministry shall ensure that the Project Steering Committee would meet at least once in two months, Steering Committee meetings had not been held for the under review. | The project steering committee meetings were not scheduled due to financial crisis & the transport issue prevailed in the country. | Action should be taken to comply with the Management Services Circular. |

3. Physical Performance

3.1 Physical Progress of the activities of the project

| Component | As at 31 December 2022 | | Audit issue | Reasons for delays |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| | Expected physical performance | Performance achieved | | |
| | Units / Percentage | Units / Percentage | | |
| Package I | 96.96 | 39.16 | The project had commenced its activities on 15 September 2020 and scheduled to be completed by 14 September 2024. According to the progress report of the project, the overall planned physical progress of the project as at 31 December 2022 was 61 percent. However, the project had achieved only 34 percent of progress even up to end of the year under review, contractor had started work without following proper work plan and poor supervision of the consultants are mainly affect to that poor progress of the construction. | Exim Bank of China has stopped the disbursement of loan agreed to pay for IPCC. |
| Package II | 58.58 | 33.80 | | |
| Response of the Management | The policy of the Government Sri Lanka concerning debt with following the IMF discussion for the purpose of restructuring “external and internal debt” means obligation for borrowed money or deferred purchase price of good or services 12.04.2022 up to the date. Exim Bank of China has stopped the disbursement of loan agreed to pay for IPCC. | | | |
| Auditor’s Recommendations | Action should be taken to expedite the progress of the project to achieve desired objectives. | | | |

3.2 Observations made on site visits

| No | Audit Issue | Management Response | Auditor’s Recommendations |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| (a) | The first section of the outer circular highway road supposed to be carried out at starting point ch 0+000 to ch 0+500 Kadawatha in the year 2015. However, actions had not been taken to commence the construction work even up to 31 December 2022. | Tender document was prepared for procurement committee. The Funding mechanism is not available at the moment. The funding arrangement has been requested from ERD. | Action should be taken to expedite the civil works. |
| (b) | The pits dug for the construction of structures at some places on the road were full of water and the wires of concrete works were exposed | Even though, slow rate progress of work is activated on the site, Contractor is | Action should be taken to establish road protection and safety plan for public |

in an unsafe manner due to the abundant of the construction. Due to this situation, it was further observed that local residents in those areas had faced dangerous situation. However, road protection as per the contract agreement and project safety plans had not been executed.

attending to minimize the convenience. public inconvenience caused by the construction.

- (c) The soil filling on both sides of the culvert construction had not been done and the construction works of the culverts were stopped in midway this situation was badly affected to the general public.
- It is advised to cover the places where the construction is retained with the necessary safety tapes and boards.
- Action should be taken to establish road protection and safety plan for public convenience.

3.3 Matters in Contentions Nature

| No | Audit Issue | Management Response | Auditor's Recommendations |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| (a) | <p>The construction of contract of Package 01 had been awarded for Rs.12,586 million and Engineer Estimate was Rs. 9,834million according to that contract sum was exceeded by 28 percent compared to the Engineer Estimate. As well as, the construction contract of Package 02 had been awarded for Rs.145,799 million and the Engineer Estimate was Rs.118,977 million. Therefore, the contract sum had been exceeded by 23 percent compared to the Engineer Estimate. However, action had not been taken to analyses the rate variances as per the Section 7.9.2 of the Government Procurement Guideline. In addition to that those contracts had been awarded as unsolicited proposals without following competitive bidding process as per the Section 3.1 of Government Procurement Guideline. Moreover, that situation was adversely affected to overrun the project cost.</p> | <p>These Contracts had been awarded as unsolicited proposals without following competitive bidding process as per the Section 3.1 of Government Procurement Guideline by using Cabinet Approvals.</p> | <p>Action should be taken to comply with the Procurement guidelines.</p> |

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|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| (b) | As per the FIDIC condition for construction Sub Clause 4.2 it was mentioned that the contractor shall obtain a performance security at his cost. However, the Project had paid of Rs.805.43 million for the contractor expenses of performance security preparation of the contract documents favorable to contractors was mainly affected to that situation. | Although as per the condition of the contract the performance security should be obtained at Contractor's own cost, the BOQ has provided a separate provision to bid by the Contractor. | Action should be taken to comply with the FIDIC Condition |
| (c) | Mobilization advance of Rs.755 million under local component and USD 7 million under the foreign component had been paid to the Package 01. However, Project had not been recovered any amount of mobilization advance up to 31 December 2022. Further, mobilization advance of USD 161 million had been paid to the Package -02 and Project had recovered only USD 10 million as at 31 December 2022 due to slow progress of the contractor. | Advance Payment deductions shall commence in the next Interim Payment which reached 30 (Thirty) percent of the Accepted Contract Amount. | Action should be taken to utilize loan fund effectively. |
| (d) | According to the BOQ item 1001 (7) of interim payment certificate No.18 cost of Rs.750 million had been allocated for the construction of temporary roads or pilot roads. However, Rs.981 million had been recommended to be paid without approval of the variation committee. Moreover, any variation order had not been submitted by the contractor. As well as Rs.22.7 million had been recommended to be paid under BOQ item 107(1) for the maintenance of the pilot roads without approval of variation committee. However, ch 25+400 to ch 29+300 of the pilot road had not been completed even up to 31 December 2022. | The approval of variation committee is not needed due to BOQ item and it is pay as monthly basis only extent that it is satisfactory of the Engineer. | Action should be taken to obtain approval from variation committee. |
| (e) | Interest expense of Rs.1,016 million had been identified due to delay in process of land acquisition and it will be directly affect to overrun the project cost. | This is mainly due to non-receipt of adequate funds. | Action should be taken to expedite the land acquisition Process without additional cost. |
| (f) | Decision had been taken on the Progress Review Meeting held on 23 November 2017 to transfer a lump sum of Rs.64 million for the BOQ item 102(1) however it had been transferred to BOQ item 10.35 without obtaining proper approval for the construction of a new building for the Head Office. | The Contractor and the Employer were agreed to transfer LS to PS at the Progress Review Meeting held on 23 November 2017. | Action should be taken to get proper approval for the transferring cost among the BOQ items. |

3.4 Issues relating to the Land Acquisition

| No | Audit Issue | Management Response | Auditor's Recommendations |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| (a) | Although 5,154 lots of lands had already been acquired under the Gazette notification 38(a) as at 31 December 2022. The Project had registered only 877 lots of lands as per Section 44 of Land acquisition Act until the end of the year under review | Actions are being taken by Divisional Secretaries under Section 44 of Land Acquisition Act. | Action should be taken to expedite the land acquisition process. |
| (b) | The possession of the site for the entire road stretch in package 1 and 2 should have been handed over to the contractor on 15 March 2021 and 15 March 2022 respectively. However, the possession of 6.211 lots land had not been handover to the contractor on time. Therefore, it had been adversely effect to the completion of the project in time and it will increase the cost of the project | Land Acquisition imprest not received in time and the Covid-19 were affected to delay the Land Acquisition. | Immediate action should be taken to handover the site in timely manner |