

## **Greater Colombo Urban Transport Development Project Phase - III - 2018**

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The audit of the financial statements of the Greater Colombo Urban Transport Development Project Phase III 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 read in conjunction with provisions in the Loan Agreement No. PBC (2014) 15 Total No (309) dated 16 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and Export and Import Bank of China. My comments and observations 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, then Ministry of Ports and Highways, presently the Ministry of Roads and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to construct an Expressway in the outskirts of Colombo which connects with the Southern Expressway and other national roads radiating from Colombo City in order to mitigate traffic congestion in the Colombo Metropolitan Region and enhance connectivity with other regions of the country, thereby contributing to the strengthening of economic development among the regions in Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 590 million equivalent to Rs.76,200 million and out of that US\$ 494 million equivalent to Rs.63,356 million was agreed to be financed by the Export and Import Bank of China. The Project commenced its activities on August 2014 and scheduled to be completed by 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 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.

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. Physical Performance**

### **2.1 Physical progress of the activities of the Project**

The contract for the construction of the Highway of 9.63 kilometres from Kadawatha to Kerawalapitiya under the Phase III of the Outer Circular Highway had been awarded on 21 February 2013 at a cost of Rs.66,690 million to a foreign company selected in unsolicited basis. The following observation is made.

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Eventhough the contractor had mobilized in August 2014, the related construction activities had been commenced only on 01 January 2016, due to subsequent changes made on the scope of works. Further, the construction works of the Highway was expected to be completed on 13 June 2019 and the period of the contract had been extended up to 10 December 2019, due to slow progress of physical works and delays in handing over the sites at certain locations. The overall progress of the construction works of the Highway had remained at 84.14 per cent as at 31 December 2018 against the targeted progress of 92.81 per cent as at that date.	Possible increase of the cost of the Project.	The period of the Project was extended up to 10 December 2019, due to delays in handing over the site to the contractor.	Attempts need to be taken to minimize the additional costs.

## **2.2 Contract Administration**

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a) According to the Section 3 of Clause 6.5(a) of the Contract Agreement for consultancy services, advances amounting to US\$ 474,579.60 and Rs.96.36 million made to the Consultant is required to be recovered in 30 equal monthly installments and completed by 31 May 2017. However, only US\$ 458,123.13 and Rs.93.01 million had been recovered as at 31 December 2018.	The balance of advance would be remained unrecovered at the end of the period of contract.	Not properly commented.	Need to be adopted with the Condition of the Contract Agreement.

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| (b) | Eventhough the Loan Agreement was signed on 16 September 2014, the initial disbursements of the proceeds of the Loan had been made only on 31 December 2015. As a result, commitment charges amounting to Rs.91.63 million had been incurred by the Project. Further, the interest amounting to Rs.86 million had been incurred by the Project as at 31 December 2018, due to delays in settling of claims made by the contractor.   | The allocation of the proceeds of Loan would not be utilized for intended purposes. | Not commented.   | Need to be adopted with Financing Plan of the Project.  |
| (c) | It was observed that the works estimated at a cost of Rs.10,775 million on construction of a section of the interchange at Kerawalapitiya and inner 04 lanes included in the initial Bill of Quantities had been subsequently cancelled and new works of construction of interchange at the starting point at Kadawatha and construction of Viaduct had been introduced to set off the cost of works withdrawn. Further, the works under 133 items under preliminaries, earth works and other civil construction works to be carried out, as per the Bill of Quantities at an estimated cost of Rs.2,967.12 million had also not been implemented by the contractor. | Poor contract administration and construction planning.                             | It is not compulsory to attend for all the items of the Bills of Quantities. Further, there are delays from the contractors for attending some required items. | Respective changes of the scope of works could be minimized at the time of preparation of detailed designs. |

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| (d) | A land of 27.02 hectares in Mattumagala area acquired at a cost of Rs.22.31 million in 2017 and 2018 for the construction of an interchange for the Highway had remained idle, as a result of changing of the scope of works to construct the respective interchange in Kaduwela area.   | Possible encroachment of lands by the outsiders.   | The idea of constructing an entrance and exit to A3 Road has been dropped as there is another interchange at Kerawalapitiya nearly 900 metres away from A3 Road. However the land acquired adjacent to A3 Road will be used for a fruitful purpose in future. | Action need to be taken to ensure the security of the land and utilize it without delay.  |
| (e) | It was observed that 401 complains had been received from the affected parties, due to reasons such as house damages, soil eroded and mud flown in to the houses, loss of cultivations due to canal diversion and lack of proper access to the lands etc. However, out of total complains received, 269 complains had only been resolved by the contractors as at 31 September 2019. | Possible increase of the cost on compensation as delays of addressing of social issues in timely manner. | There are 600 written complaints received and out of that 331 complaints remained outstanding. The process is going on until the settlement of all the complaints.  | Need to be addressed the issues on rectification of damaged properties before termination of the contract and expiration of insurance coverage. |

### 2.3 Issues on Land Acquisition and Resettlements

The following observations are made.

	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	According to the information made available, 1,561 plots of land including 296 plots of crown land in the area under the purview of Divisional Secretariats of Wattala and Mahara had been acquired by the Project for road construction purposes and the compensation amounting to Rs.5,794.14 million had been paid thereon as	Additional costs to the Government of Sri Lanka.	The interest had to be paid for the statutory valuation from the date of Section 38(a) Gazette up to the payment date, due to lack of imprest for making payments in time. The Section 44 is published only for 292 plots and the process is remained in progress.	Land acquisition activities need to be properly planned to complete it at targeted dates.

at 31 December 2018. Further, it was observed that the interest amounting to Rs.1,094 million had been paid by the Project as at 31 December 2018, due to delays in settling the compensation claims made. However, the ownership of 292 plots of land had only been transferred to the Road Development Authority.

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| (b) | A land called Millagahawatta of 2.63 hectare in Wattala Divisional Secretariat area had been acquired for resettlement purposes at a cost of Rs.34 million and further, a sum of Rs.48.37 million had been incurred for development purposes. Eventhough the Project had expected to resettle 57 families, only 34 families had been resettled as at 31 December 2018.                          | Possible encroachment of plots of land not occupied. | The balance of plots of land will be distributed to the affected people in Wattala area.  | Action need to be taken to safeguard the balance plots of land until settling down the affected people.                                    |
| (c) | The Project had not taken action to recover the cost of the plots of land from 36 families instead of 07 families resettled at the land of Jayasumanawatta of 2.43 hectare procured in 2014 at cost of Rs.96.19 million. Further, the Project had agreed to allocate 58 plots of land for occupation of encroachers and out of that only 33 families had been resettled as at 31 December 2018. | Intended objectives would not be achieved.           | Jayasumanawatta resettlement land was divided in to 02 stages. There are 36 plots of land in Stage I and only 08 people had made the payments. All 58 plots of land in Stage II had been given to the families in Kerawalapitiya and not settled down until 31 December 2018. | The ownership of the balance plots of land need to be transferred to the Road Development Authority at the time of completion the Project. |