

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase 01 - 2014

The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase 01 for the year ended 31 December 2014 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. This Project was initiated with the Grant amounting to Rs.417 million equivalents to Japan Yen 580 million received for detailed design study on the Outer Circular Highway to the city of Colombo under an Agreement entered into between the Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka on 20 February 2001. The Loan Agreement No.SL-P89 had been entered into between former Japan Bank for International Co-operation and the Democratic Socialist Republic of Sri Lanka on 28 March 2007 to construct 11 kilometres of Highway from Kottawa to Kaduwela under Phase - 1 of the Project. Two subsequent Loan Agreements of No.SL-P91 and No.SL-P101 had been entered into between the Government of Sri Lanka and Japan International Cooperation Agency on 29 July 2008 and 22 March 2011 respectively to construct 8.9 kilometres of the Highway from Kaduwela to Kadawatha under Phase- II of the Project. A separate Loan Agreement had been signed by the Government of Sri Lanka with the Exim Bank of China on 16 September 2014 to construct 9.32 kilometres of the Highway from Kadawatha to Kerawalapitiya under Phase- III of the Project.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Highways, Ports and Shipping, presently Ministry of University Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are;

- (a) 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, thereby of the country.
- (b) To mitigate traffic congestion in the Colombo Metropolitan Region to enhance connectivity with other regions by constructing a highway in the outskirts of Colombo that will link to major roads and the Southern Expressway thereby contributing to the strengthening of economic development among the regions in Sri Lanka.

The estimated total cost for the Phase-1 and Phase-II of the Project was Rs.72,924 million and out of that, a sum of Rs.52,007 million equivalent of Japanese Yen 46,974

million was agreed to be financed by the Japan International Cooperation Agency. The construction of the Highway under Phase -1 was scheduled to be commenced in May 2008 and expected to be completed within 48 months by April 2012. However, the contract had been awarded only on 22 October 2009 and expected to be completed only for 11 kilometres within 42 months by the year 2013. Further, the contract for construction of the Highway under Phase II of the Project had been awarded to another contractor on 22 October 2009 and was expected to be completed within 36 months by 23 December 2013. The Phase –II of the Project had been treated separately and operated under another Project Monitoring Unit with effect from 05 September 2011 according to the Letter dated 25 April 2012 of the Department of Management Services issued on the request made by the Road Development Authority. The Section from Kottawa to Kaduwela of the Highway had been completed and opened to the traffic on 08 March 2014.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The value of work done shown in the Interim Payment Certificates amounting to Rs.23,309,323,443 had been shown in the corresponding Ledger Account as Rs.23,309,776,693 erroneously.
- (b) A sum of Rs.3,146,672 incurred on borehole investigations carried out under the Phase - III of the Project had been charged to the Phase - I of the Project instead of transferring to Outer Circular Highway Project Phase - III Project. Further, consultancy payment of Rs.94,947,010 made during the year under review for the Phase - II Project had been erroneously charged to Outer Circular Highway Project Phase - I.

2.2.2 Un-reconciled Balances

The following observations are made.

- (a) The Current Account maintained by the Project with the Road Development Authority had shown a balance of Rs.3,213,304 payable as at 31 December 2014. However, the related Current Account maintained by the Road Development Authority had shown only a sum of Rs.432,411 as receivable

from the Project as at that date. The reason for the difference of Rs.2,780,893 had not been explained to audit.

- (b) The balance of the Current Account amounting to Rs.676,085,438 maintained by the Phase - I of the Project with Project Phase -II had not agreed with the balance amounting to Rs. 646,654,827 of the corresponding Current Account maintained by the Project Phase - II.
- (c) The balance of the Current Account amounting to Rs.1,981,295,504 maintained by the Phase- I of the Project with Project Phase -III had not agreed with the balance amounting to Rs. 1,980,769,681 of the corresponding Current Account maintained by the Project Phase- III .

2.2.3 Receivables

Balances aggregating Rs.696,473 shown as purchase advances in the financial statements as at 31 December 2014 had remained outstanding for over one year. Out of that, advances amounting to Rs.96,613 made to a private party had remained unsettled for over five years.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year 2014		up to 31 December 2014	
	Japan Yen million	Rs. million	Rs. million	Japan Yen million	Rs. million	Japan Yen million	Rs. million
Loan P- 89	21,917	24,547	4,642.0	3,481	3,792	23,499	25,598
Loan P- 91	-	-	-	-	-	11	12
GOSL		8,920	80.5	80	87	-	6,240
	21,917	33,467	4,722.5	3,561	3,879	23,510	31,850

- * A sum of Rs.12 million had been spent to settle consultancy charges of the Phase -I of the Project out of allocations made under the Loan No. P- 91 signed for Phase II of the Project.

3.2 Physical Progress

3.2.1 Contract Administration

The following observations are made.

- (a) According to the Condition of the Contract, the contractor should adhere with the quality assurance system for the road construction purposes and therefore, quality assurance staff should be planned and deployed by the contractor. However, the contractor had not complied with the above requirement and therefore, the additional staff for quality assurance purposes had been employed by the Consultant of the Project and claimed a sum of Rs.7.22 million through variation orders. Further, it was observed that 81 Non-conformance Product Notifications had been issued up to 31 December 2014 and no action had been taken to rectify 05 notifications included therein even up to 31 December 2014.
- (b) The mechanism for temperature controls on mass concrete in pile caps, piers and abutments should be included in the specifications and Method Statements of the Bill of Quantities. However, such mechanism had not been included as a part of the Bill of Quantities and treated it as a variation. Therefore, an additional expenditure amounting to Rs.64.23 million had been spent under a variation order.
- (c) Further, the Batching Plant had been dismantled and re-established several times due to lack of plans to install it for long term usage. Therefore, costs aggregating Rs.8.37 million incurred in dismantling, transporting and relocation had been charged to the Project under variation orders.
- (d) According to the Public Finance Circular No.2/2012 of August 2012, estimates for all procurements should be made by considering all the matters to ensure the accuracy of the total cost of the procurement. However, it was observed that cost of civil works amounting to Rs.3,600 million pertaining to 133 variation orders had been included and other 03 variation orders valued at Rs.22.95 million had been withdrawn from the initial estimates. This situation would lead to a number of disputes and unfavourable effects to the activities of the Project. Further, the approval from the Cabinet Appointed Tender Board had not been obtained for such scope variations.

- (e) It was observed that the total cost of the contract had been exceeded by 20 per cent due to changes in the scope of work with the introduction of interchanges for the Highway. The following observations are made in this connection.
- (i) The Interchanges at Athurugiriya and Kotalawala which were not included in the original design of the Highway had been constructed under the Phase - I of the Project as separate contracts awarded to the same contractor at estimated costs of Rs.2,078 million and Rs.475.68 million respectively. However, contract agreements had not been signed and recommendations of the Secretary of the Line Ministry had not been obtained.
 - (ii) Further, the concurrence of the Project in terms of Clause 59.1 of the Conditions of Contract had not been obtained by the Contractor for the pavement construction works and laying of asphalt at the Interchange at Athurugiriya which were not estimated at the initial stage. The works had been carried out by a sub-contractor and a sum of Rs.15.81 million incurred thereon under a variation order.
 - (iii) The construction works of the Interchange at Kotalawala was planned under Phase II of the Project. However a temporary Interchange had been constructed at cost of Rs.176.74 million due to delays in construction of the permanent interchange and charged the cost to the Phase I of the Project. Subsequently, the temporary interchange had been demolished at a cost of Rs.10.10 million. The permanent interchange had been constructed at a cost of Rs.481.60 million under a variation orders.
 - (iv) The construction of the interchange at Kottawa was planned to complete before the commencement of the activities of the Southern Expressway. However, a temporary interchange had been constructed by the Phase - 01 of the Project under a variation order at a cost of Rs.258.92 million due to delays in construction of permanent interchange. However, the temporary interchange had been demolished and spent on Rs.8.27 million and new permanent interchange had been constructed by the Project at a cost of Rs.945.33 million. The liquidated damages on delays of constructions of permanent interchange for 36 months amounting to Rs.16.91 million had not been charged.
- (f) As stipulated in the Clause 62.2 of the Condition of the Contract, the Interim Payment Certificates which exceed the value of Rs.200 million should be taken into consideration for the Technical Evaluation Committee. However, Interim Payment Certificates IPCs which were not exceed Rs.200 million had been evaluated in 10 instances up to 31 December 2014.

- (g) It was observed that the contract for consultancy service had been extended from August 2014 to April 2015 as enable to cover the construction works of the Interchange at Athurugiriya and a sum of Rs 77.12 million had been paid thereon under a variation order without obtaining the approval from relevant parties.

3.3 Lands Acquisition and Resettlement Activities of the Project

According to the financial statements, the Project had spent a sum of Rs.2,719.6 million up to 31 December 2014 for acquisition of six lands of 6.2 acres in extent to resettle the persons displaced due to activities of the Project . The following observations are made in this connection.

- (a) It was observed that the land acquisition and resettlement activities of the Project were expected to be completed at the end of December 2011. However, the land acquisition activities had been completed for Phase 01 of the Highway by 99 per cent as at 31 December 2014 and only 86 per cent of the resettlement activities had been completed as at that date.
- (b) A land of 324.17 perches in extent at Kaduwela had been acquired by the Project at a cost of Rs.71.82 million in 2009 for resettlement of displaced persons and subsequently a sum of Rs.23.92 million had also been spent for land development activities. The acquired land had been demarcated into 21 plots and out of that, 08 plots had remained idle even as at 31 December 2014 without taking an action to hand over to the persons displaced.

3.4 Matters in Contentious Nature

The following observations are made.

- (a) Project had been paid a sum of Rs.1,000 million as an additional advance which was not covered by Condition of Contract to the Contractor, and it had not been settled from interim payment certificates. However, at the end of the contract period, a sum of Rs.587.05 million had been recovered from the retention money payable to the contractor.
- (b) Due to delay in implementation of the Project, commitment charges amounting to Rs.750.39 million had been paid by the Project based on the undisbursed balances of the Loan.
- (c) Interest amounting to Rs.76.60 million had been paid as at 31 December 2014 due to delays in payment of compensation for the acquisition of lands.
- (d) Contrary to the Section 8.3.9 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises of the General Treasury, a sum of Rs.141.74 million had been remitted to the Road Development Authority 31 December 2014 as overhead charges.