

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

The audit of financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II 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 equivalent to Japan Yen 580 million received for detailed design study on the Outer Circular Highway to Colombo city under an Agreement entered into between the Japan International Cooperation Agency (JICA) and the Government of Sri Lanka (GOSL) on 20 February 2001. Further, the first Loan Agreement No.SL-P89 had been entered into between the former Japan Bank for International Co-operation, presently the Japan International Cooperation Agency and the GOSL on 28 March 2007 to construct 12 kilometres Highway from Kottawa to Kaduwela under the Phase I of the Project . The second Loan Agreement No.SL-P 91 had been entered on 29 July 2008 and third Loan Agreement No. SLP 101 had been entered on 22 March 2011 to construct 8 kilometres Highway from Kaduwela to Kadawatha under the Phase II of the Project.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II, then Ministry of Highways and Investment Promotion, presently Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project are 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.

As per the Loan Agreements, the estimated total cost of the Project - Phase II was Japan Yen 44,097 million equivalent to Rs.49,000 million and out of that, Japan Yen 37,406 million equivalent to Rs.29,319 million was agreed to be financed by the Japan International Cooperation Agency. The construction of the Highway under Phase II was scheduled to be commenced in May 2008 and expected to be completed within 48 months by April 2012. However, the contract for construction of the Highway under Phase II had been awarded to a contractor on 22 October 2009 and completed in July 2015.

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. The 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 Loans, etc.
- (d) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements.

- (e) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipments supplied under the Loans had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreements had been complied with.

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, 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Un-reconciled Control Accounts

The following observations are made.

- (a) The Inter Current Account maintained by the Project with the Road Development Authority had shown a payable balance of Rs.40,016,302 as at 31 December 2014. However, the corresponding balance in the Inter Current Account maintained by the Road Development Authority had been shown as Rs.48,620,225 as at that date.
- (b) The balance of Rs.646,654,827 shown in the Inter Current Account maintained by the Project had not been agreed with the corresponding balance of Rs.676,085,438 of the Inter Current Account maintained by the Outer Circular Highway Project- Phase1, for this Project.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, 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 in the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year 2014	as at 31 December 2014		
	Japan Yen million	Rs. million	Rs. million	Japan Yen million	Rs. million	Japan Yen million	Rs. million
JICA							
Loan No - 91	5,718	5,757					
Loan No -101	31,688	23,562	13,872.0	95.34	12,394.11	259.07	33,679.69
GOSL	6,691	19,681	89.2	0.64	82.61	9.56	1,243.36
	<u>44,097</u>	<u>49,000</u>	<u>13,961.2</u>	<u>95.98</u>	<u>12,476.72</u>	<u>268.63</u>	<u>34,923.05</u>

3.2 Physical Progress

According to the progress reports of the Project for the year ended 31 December 2014, the actual progress achieved had remained as 86 per cent at that date against the revised target of 98 per cent, thus indicating that actual progress remained behind the target. The delays caused on construction of bridge over Kelani River, unexpected

variations on rock profile, re-designs of file caps and delays on approval received from the Department of Irrigation for temporary bridges etc,

3.3 Contract Administration

The following observations are made.

- (a) According to the tests carried out by the Research and Development Division of the Road Development Authority with audit team, the road marking made with Reflectorized Thermoplastic at Ramp 4 of 0+069 kilometres at left hand side of Kadawatha A1 interchange and 12+435 kilometres of right hand side of Outer Lane was not complied with minimum requirement.
- (b) As the bid value of Rs.62.04 billion submitted by the contractor had exceeded the Engineer's Estimates of Rs.31.33 billion pertaining to the road construction, the Cabinet of Ministers had decided on 06 October 2010 not to award the contract to the bidder. However, it was noted that contrary to the decision, the above bid was reconsidered and awarded to the same bidder on 25 November 2011 after reducing the bid price up to Rs.44.88 billion. According to the information made available, the Cabinet of Ministers at its meeting held on 25 November 2011 had granted the approval for the second bid, even though the rates applied either for Engineer's Estimates or the second bid had not been approved by the Technical Evaluation Committee.
- (c) According to the Engineer's Estimates, allocations aggregating Rs.120.73 million had been made to procure 15 motor vehicles and 08 motor cycles under the category of preliminary expenditure. However, the allocation had been increased subsequently up to Rs.153.54 million to procure 21 motor vehicles and 12 motor cycles and included the additional cost under other category as a provisional sum.
- (d) It was observed that the Value Added Tax amounting to Rs.19.88 million incurred by the contractor for the procurement of vehicles had been reimbursed by the Project. Further, the interest of Rs.6.90 million had been charged due to delays in payment of Value Added Tax and the contractor had claimed that amount from the Project.

3.4 Matters in Contentious Nature

The following observations are made.

- (a) A sum of Rs.6.84 million including encashment of leave, medical insurance, bonus, and other allowances had been paid to the employees of the Road Development Authority attached to the Project, contrary to the Sections 8.3.9 and 8.6 of the Circular No. PED/12 dated 02 June, 2003 of the Department of Public Enterprises.

- (b) A sum of Rs.21.2 million had been spent by the Project for activities which were not directly related to the objectives of the Project. Further, such payments had been considered as variations for the construction works without obtaining relevant approvals.
- (c) Five Consultants had been employed by the Project without the approval of the Department of Management Services. Further, the Terms of References had not been issued to them, even though remuneration aggregating Rs.3.22 million and vehicle hiring charges of Rs.1.97 million had been paid during the year under review.
- (d) The fleet of motor vehicles of the Project comprised with 03 hired motor vehicles and 05 motor vehicles provided by the contractor. It was observed that 06 motor vehicles had been assigned to the officers who were not entitled for vehicle facilities in terms of Circular No 33(1) dated 20 December 2007 of the Department of Management Services.

3.1 Lands Acquisition and Resettlement Activities

According to the information made available, the Project had spent a sum of Rs.1,745 million up to 31 December 2014 for compensation and acquisition of a land of 1.3286 hectares for resettlement of the persons displaced due to activities of the Project. Further, the land acquisition and resettlement activities of the Project were expected to be completed by the end of December 2014. Even though 94 per cent of the land acquisition activities had been completed under Phase II of the Highway, 80 per cent of the resettlement activities only had been completed as at 31 December 2014.

3.2 Human Resources Management

The following observations are made.

- (a) According to paragraphs Nos. 2.2.4 and 2.2.7 of the Circular No. 33 dated 05 April 2007 of the Department of Management Services, staff recruitments should be made by calling for applications through national newspapers and appointment should be made on contract basis for period not exceeding three years. However, all members of the Project staff including the officers released from the Road Development Authority had been recruited on temporary basis contrary to the provisions of the above Circular.
- (b) The Department of Management Service had approved 35 posts of the cadre of the Project and out of that 11 posts had remained vacant throughout the year under review.