

## Colombo – Katunayake Expressway Project - 2012

### 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 3 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) 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 Agreements had been complied with.

### 2. Financial Statements

#### 2.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs.11,443,421,016 and the cumulative expenditure as at 31 December 2012 amounted to Rs.33,621,265,488. The following statement shows a summary of the expenditure for the year under review and the expenditure for the preceding year and the cumulative expenditure as at 31 December 2012.

| <u>Item of Expenditure</u>    | <u>Expenditure for the year ended 31 December</u> |             | <u>Cumulative expenditure as at 31 December 2012</u> |
|-------------------------------|---|-------------|--|
|                               | <u>2012</u>                                       | <u>2011</u> |  |
|                               | <u>Rs.</u>  | <u>Rs.</u>  | <u>Rs.</u>   |
| Property, Plant and Equipment | 357,610   | 167,240     | 2,810,849  |
| Project Management            | 52,767,765  | 49,663,246  | 296,723,038  |

|                           |                       |                      |                       |
|---------------------------|-----------------------|----------------------|-----------------------|
| Land and Land Improvement | 90,053,482            | 178,110,899          | 2,269,456,176         |
| Work in progress          | 11,058,849,080        | 9,280,310,318        | 30,226,255,365        |
| Consultancy               | 241,393,079           | 179,053,743          | 826,020,060           |
|                           | -----                 | -----                | -----                 |
| <b>Total</b>              | <b>11,443,421,016</b> | <b>9,687,305,446</b> | <b>33,621,265,488</b> |
|                           | =====                 | =====                | =====                 |

### **3. Audit Observations**

#### **3.1 Accounting Deficiencies**

The following observations are made.

- (a) Although fixed assets such as motor vehicles, computers, furnitures and fittings, labotary equipment etc. procured from Project funds for the use of the Project Management Unit staff, the Consultant and the Contractor belong to the Project, action had not been taken to enter them in the Inventory Register and conduct annual Board of Survey to ensure their existence. Instead, the Project brought to account those under the work - in – progress.

A test check of 12 IPCS revealed that 41 motor vehicles had been purchased for the Project at a cost of Rs.377,780,711 and under the existing circumstances, the misuse of such assets can not be the ruled out in audit.

- (b) According to Paragraph 5.5 of Article 5 of the Loan Agreement, the borrower shall pay to the Lender a Management Fee of 0.3 per cent of the facility within 30 days from the date of the signing the Loan Agreement. Therefore, a sum of US\$ 744,574.05 equivalent to Rs. 85,490,056 had been paid by the Government to the Export-Import Bank of China as at 31 December 2012. However, this amount had not been disclosed in the financial statements.
- (c) According to Paragraph 5.6 of Article 5 of the Loan Agreement, the borrower shall pay to the Lender a commitment fee of 0.3 per cent per annum on the daily unutilized portion of the facility. Although, a sum of US\$ 725,252.16 equivalent to Rs. 84,612,592 had been paid to the Export-Import Bank of China as at 31 December 2012, this amount had not been disclosed in the financial statements.
- (d) According to Paragraph 5.7 of Article 5 in the Loan Agreement, the borrower shall pay to the Lender Exposure Fee of 6 per cent on flat rate on the utilization of the Loan within 30 days from the date of the signing the Loan Agreement. Although, a sum of US\$ 14,891,481.19 equivalent to Rs.1,709,801,154 had been paid to the Export-Import Bank of China as at 31 December 2012, this amount had not been disclosed in the financial statements.

### 3.2 Non - reconciliation of Balances

The balance of the Current Account of the Project with the Road Development Authority amounting to Rs 4,466,735 had not agreed with the corresponding balance of Rs.5,046,140 shown in the Current Account of the Project maintained by the Road Development Authority.

## 4. Financial and Physical Performance

### 4.1 Funds Utilization

As referred to Paragraph 1.2 above, the whole construction work of the Expressway had been divided into four sections and the Loan Agreements and Contract Agreements had been signed accordingly, The funds allocation for each section according to the Loan Agreements and the funds utilization as at 31 December 2012 thereon are given below.

| <u>Contract Number</u> | <u>Chainage (kilometres)</u> | <u>Agreed Loan Amount</u> |                       | <u>Value of the Contract</u> |                      | <u>Funds utilized as at 31 December 2012</u> |                       |
|------------------------|------------------------------|---------------------------|-----------------------|------------------------------|----------------------|--|-----------------------|
|                        |                              | US\$                      | Rs                    | US\$                         | Rs                   | US\$   | Rs                    |
| I                      | 0+000 to 4+500               | 70,041,527                | 7,704,567,970         | 82,401,797                   | 9,064,197,670        | 48,682,556                                   | 3,994,609,266         |
| II                     | 4+500 to 10+900              | 63,573,815                | 6,993,119,650         | 74,792,723                   | 8,227,199,530        | 44,565,329                                   | 3,685,625,021         |
| III                    | 10+900 to 16+800             | 47,801,344                | 5,258,147,840         | 56,236,875                   | 6,186,056,250        | 33,652,735                                   | 2,787,119,863         |
| IV                     | 16+800 to 25+800             | 66,783,314                | 7,346,164,540         | 78,568,605                   | 8,642,546,550        | 46,192,769                                   | 3,895,361,375         |
| <b>Total</b>           |                              | <b>248,200,000</b>        | <b>27,302,000,000</b> | <b>292,000,000</b>           | <b>32,120,000,00</b> | <b>173,093,389</b>                           | <b>20,054,627,135</b> |

The following observations are made.

- (a) The constructions of the Project could not be completed by November 2012 as agreed and it had been extended to 24 August 2013 for a period of 09 months. However, the Project could not be completed even during the revised period.
- (b) The construction work of the Project had operated as a turnkey contract and therefore, the contractor should carry out the works such as investigations, surveying, preparations of designing and drawing, constructions, etc, as a whole. However, the initial estimated cost had increased as a result of subsequent structural changes of interchange at the Katunayake viaduct bridge at Hunupitiya, railway line bridge, etc, in the original scope of work and additional costs had been treated as variations. According to the details of payments, such variations aggregating

US\$ 15,733,096 equivalent to Rs.1,886,092,336 and variations aggregating US\$ 2,555,903 equivalent to Rs.324,828,313 paid up to December 2012 had been charged to the GOSL Contribution and the Foreign Loan.

- (c) Variations amounting to US\$ 44,717,824 to the original contract amounting to US\$ 292,000,000 had been approved by the Cabinet of Ministers on 18 July 2013. Therefore, the total contract cost had increased to US\$ 336,717,825.54 (Rs.44,840,712,827) by 15 per cent. The major portion of the increased cost was due to subsequent structural changes made to the initial contract at the Katunayake and Hunupitiya viaduct, New Kelani Bridge interchange, construction of a bridge at Kerawalapitiya, OCH interchange and Toll Station at Ja-Ela interchange. However, reasons explained by the project for certain structural construction changes at Katunayake and Hunupitiya should have been identified at the initial stage.

Example :-1. According to the initial construction plan, the Colombo Katunayake Expressway construction at Katunayake end had been planned to be built at ground level. However, the initial construction plan for this road section had been subsequently changed by introducing viaduct road construction. This new structural changes had been done by the Project due to two railway lines crossing the CKEP road. A sum of US\$ 17,907,460 being additional cost had been incurred by the Project for the new structural change.

Example:- 2. Although the initial construction plan was to built the road at groundlevel at the Hunupitiya Railway Station, viaduct road construction was introduced due to unavailability of required Land from the Land owners and the additional cost incurred for the construction amounted to US\$ 16,549,085.

- (d) The initial cost of the Project amounting to US\$ 292 million had been increased to US\$ 336 million by US\$ 44 million due to contract variations. However, the present Loan arrangement from the Exim Bank agreed to cover 85 per cent of the initial cost of the project which was US\$ 248 million. Therefore, nearly a sum of US\$ 88 million should have been arranged by the project to cover the total contract cost. However, the additional funds required had not been found by the Project as at 20 November 2013. As a result, the contractors interim payment certificates could not be paid by the project after September 2013.
- (e) According to the construction work plan of the Project, 100 per cent of work valued at US\$ 292 million equivalent to Rs 32,120 million was to be fulfilled at end of the year under review. However, the progress report of the Consultant Engineer of the Project, had indicated that the overall progress of the Project as at 31 December 2012 as 74 per cent of work valued at US\$ 240,595,491 equivalent to Rs 26,465,504,010 only. The details of slow progress of work below 50 per cent achievement are as follows.

| <b>Item Description</b>     | <b>Progress Achieved as<br/>at 31 December 2012<br/>Percentage</b> |
|-----------------------------|--|
| -----                       | -----  |
| Drainage Ditches            | 27.61  |
| Chutes                      | 37.54  |
| Asphalt Concrete Pavement   | 33.73  |
| Miscellaneous               | 41.76  |
| Guardrail                   | 0,00   |
| Barrier Fence               | 0,00   |
| Traffic Signs/Markings      | 0,00   |
|                             | 10.77  |
| Embedded Pipelines          | 40.00  |
| Landscaping and Environment | 0,00   |
| Noise Barrier               | 0,00   |
| Tolling System              | 0.22   |
| Monitoring System           | 10.00  |
| Communication System        | 2.00   |
| Lighting System             | 20.00  |

#### **4.2 Land Acquisitions and Resettlement Activities**

The following observations are made.

- (a) According to the Road Construction Plan, 2,600 plots of land were expected to be acquired for the purpose of construction of the Expressway. However, 2,232 plots of land had only been acquired up to 31 December 2012. Out of the plots of land acquired as referred to above, 1190 plots of lands only had been registered at the Office of the Land Registry in terms of Section 44 of the Land Acquisition Act.
- (b) An advance amounting to Rs.1,789,015 had been paid in 2001 to the Urban Development Authority for the purpose of acquisition of a land at Meegahawatta in Peliyagoda for resettlement of displaced persons under this Project. The balance sum of Rs.2,641,105 with Nation Building Tax and Value Added Tax for this land had been made on 12 October 2012. However, it was observed that the ownership of the said land had not been transferred to the Road Development Authority from the Urban Development Authority even up to 14 November 2013. This situation had resulted in a delay with transferring ownership to the persons who had been resettled in the plots of land.

- (c) It was observed that only 25 out of 30 plots of the above land had been occupied by the displaced persons. The plots of land bearing Nos. 19 , 22, 26, 27 and 28 had remained unutilized for residential purposes as at 14 November 2013.

#### **4.3 Human Resource Management**

The staff of the Project consisted of 53 members as at 31 December 2012. Even though 73 members for 21 posts had been approved by the Department of Management Services, vide, letter dated 01 July 2005, the following observations were made in this connection.

- (a) The key posts of Chief Engineer, eight Engineers, three Technical Officers, four Resettlement Officers and a Quantity Surveyor remained vacant whilst three Consultants and a Transport Systems Analyst had been recruited, even though such posts were not approved by the Department of Management Services.
- (b) List of duties, attendance, work performed, etc. of above four unauthorized office were not made available to audit. Further, a sum of Rs.2,841,678 had been paid as salaries and vehicle charges for the year under review. However the list of duties, attendance and work performed relating to the project works had not been furnished to audit.