

Colombo – Katunayake Expressway Project - 2013.

The audit of financial statements of the Colombo – Katunayake Expressway Project for the year ended 31 December 2013 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. The Project is implemented under the Loan Agreements v dated 06 August 2009 entered into between the Exim Bank of China and the Democratic Socialist Republic of Sri Lanka.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Executing and Implementing Agencies of the Project are then Ministry of Ports and Highways and presently, the Ministry of Highways, Higher Education and Investment Promotions and Road Development Authority respectively. The objective of the Colombo – Katunayake Expressway Project is to design and build speed from 80 kilometers to 100 kilometres per hour four lane divided expressway with a length of about 25.8 kilometres having complete access control and provision of user fee levying facilities. The Project initially commenced in October 2000 under the Road Development Authority by using the funds of the Government of Sri Lanka was abandoned in January 2003. At the time of termination of the construction works a sum of Rs. 5,444 million representing 57 per cent of the original estimated value of Rs. 9,516 million had been paid. Subsequently, the Cabinet of Ministers at its meeting held on 14 August 2008 had granted the approval to divide the scope of work of the Expressway construction into four contracts and award the contracts to the China Metallurgical Group Corporation to be implemented as a single project. Further, the Cabinet of Ministers at its meeting held on 11 September 2008 had granted approval to enter into four contracts with the Exim Bank of China to obtain a Loan of US\$ 248.2 million equivalent to Rs 32,120 million to finance 85 per cent of the total estimated cost of US\$ 292 million equivalent to Rs.37,832 million for the construction of the Expressway. Therefore, the Loan Agreements had been signed with the Lending Agency on 06 August 2009 and the Construction Agreements had been signed with the contractor on 17 August 2008. The activities of the Project was commenced on 18 August 2009 and expected to be completed by August, 2013. However, the Expressway was opened to the public on 27 October 2013.

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 Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 the Project management and the reliability of books, records, etc. relating to the operations of the Project,
- b) 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 purchases made out of the Loan, etc.,
- c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements,
- d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- g) Whether satisfactory measure had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) Whether the financial covenants laid down in the Loan Agreements had been complied with.

3. 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 5 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 13,453,782,648 and the cumulative expenditure as at 31 December 2013 amounted to Rs 47,118,926,777. 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 2013.

<u>Item of Expenditure</u> -----	<u>Expenditure for the year ended</u> <u>31 December</u> -----		<u>Cumulative</u> <u>expenditure as at 31</u> <u>December 2013</u> -----
	<u>2013</u>	<u>2012</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Property, Plant and Equipment	44,080,682	357,610	44,867,611
Project Management	210,027,219	52,767,765	508,774,177
Land and Land Improvement	231,127,040	90,053,482	2,500,583,216
Work- in-progress (Expressway)	12,733,142,731	11,058,849,080	42,959,398,096
Work- in- progress (Buildings)	39,245,172	-	39,245,172
Consultancy	196,159,804	241,393,079	1,022,179,864
Assets transferred to the Road Development Authority	3,878,641		43,878,641
Total	13,453,782,648 =====	11,443,421,016 =====	47,118,926,777 =====

5. Audit Observations

5.1 Accounting Deficiencies

The following observations are made.

- (a) Management fees of 0.3 percent of the Loan facility amounting to US\$ 744,574.05 equivalent to Rs. 85,490,056, Commitment fee of 0.3 percent per annum on the daily unutilized portion of the Loan facility of US\$ 725,252 equivalent to Rs. 84,612,592 and Lender Exposure fee of 6 percent on flat rate on the utilization of the Loan facility amounting US\$ 725,252.16 equivalent to Rs. 84,612,592 paid during the period of the Loan to the Lender Agency in terms of the paragraphs 5.5, 5.6 and 5.7 of the Article 5 of the Loan Agreement had not been disclosed in the financial statements.
- (b) It was observed that, 20 vehicles purchased at a cost of Rs.57,427,041 equivalent to Japan Yen 45,289,465 as at 31 December 2013 had been accounted under work-in-progress of Expressway instead of Property Plant and Equipment.

6. Financial and Physical Performance

6.1 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 allocation of funds for each section according to the Loan Agreements and the funds utilization as at 31 December 2013 thereon are given below.

<u>Contract No.</u>	<u>Chainage (kilometres)</u>	<u>Agreed Loan Amount</u>		<u>Value of the Contract</u>		<u>Funds utilized as at 31 December 2013</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	70,041,527	8,399,101,455
II	4+500 to 10+900	63,573,815	6,993,119,650	74,792,723	8,227,199,530	63,573,815	7,615,964,831
III	10+900 to 16+800	47,801,344	5,258,147,840	56,236,875	6,186,056,250	47,801,344	5,724,187,052
IV	16+800 to 25+800	66,783,314	7,346,164,540	78,568,605	8,642,546,550	66,783,314	7,991,037,936
Total		248,200,000	27,302,000,000	292,000,000	32,120,000,000	248,200,000	29,730,291,274

According to the information received, the original value of the contracts of US\$ 292,000,000 equivalent to Rs.3,120,000,000 had been revised upto US\$ 345,928,359 equivalent to Rs. 41,587,939,430 in twice and variations of the scope of the works thereon had been approved by the Cabinet of Ministers in two occasions on 18 July 2013 and 13 November 2014. Therefore, the financing arrangements are required to be made to meet the cost of the additional works carried out.

6.2 Land Acquisitions and Resettlement Activities

The following observations are made.

- (a) According to the Road Construction Plan, 2,583 plots of land were expected to be acquired for the purpose of construction of the Expressway. However, 2,571 plots of land had only been acquired up to 31 December 2013. Out of the plots of land acquired as referred to above, 1,251 plots of lands only had been registered at the Office of the Land Registry as per 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 as at 31 December 2013. This situation had resulted in a delay of transferring ownership to the persons who had been resettled in the plots of land.
- (c) Interest amounting to Rs. 373,104,216 had been paid by the Project on delays of settling compensation as at 31 December 2013. It was observed that the certain payments of interest had to be made on delays of settling of compensation by the Project for over nine years.
- (d) Out of the plots of land to be acquired under the Gazette Notification No.1324/19 published on 21 January 2004 , 14 plots of land had not been acquired from Land Reclamation and Development Corporation the for over 10 years due to disputes with the previous owners of the land.

6.3 Contract Administration

The following observations are made.

- (a) Retention money of Rs. 205,844,479 had not been deducted by the Project on payments amounting to Rs.2,058,444,793 made to the contractor under the Interim Payment Certificate Nos. 38 and 39.
- (b) According to the information collected, the total requirement of sea sand for the Expressway had been determined at 2,550,000 cubic meters and the Sri Lanka Land Reclamation & Development Corporation had agreed to supply the whole quantity of sea sand at US\$ 10 per cubic meter. However, the Corporation had decided on 21 October 2011 to increase the unit price to US\$ 11.29 for 1,150,000 cubic meters and then US\$ 11.48 for 800,000 cubic meters after supplying of 600,000 cubic meters at an agreed price of US\$ 10 per cubic meter. The Project had paid the additional cost of Rs. 256,407,720 to the

Corporation as at 31 December 2013 for supply of 1,167,473 cubic meters of sea sand as the contractor had not agreed to bear the additional cost due to the price increase. It was observed that a formal agreement had not been signed by the parties initially to supply whole quantity of sea sand at a cost of US\$ 10 per cubic meter.

- (c) Two plots of land of 55 acres and 25 acres respectively in the Muthurajawela area belonging to the Sri Lanka Land Reclamation and Development Corporation had been acquired by the Project in 2010 under lease basis for the use of contractor. According to the agreement entered into with the contractor, the Project agreed to reimburse the annual lease payment of Rs. 16.19 million and Rs.9.34 million respectively from the above lands from the contractor. However, the Corporation had subsequently increased the annual lease payments up to Rs.27 million and Rs.14 million for the 55 acres and 25 acres respectively and the Project had incurred the additional cost of Rs 20,338,962 with taxes during the year under review, as a result of provision not being made in the agreement to claim subsequent increases of lease rentals from the contractor.

6.4 Human Resource Management

The staff of the Project consisted of 53 members as at 31 December 2013 eventhough 73 members for 21 posts had been approved by the Letter dated 01 July 2005 of the Department of Management Services. Further four Consultants and a Land Acquisition Officer had been recruited, eventhough such posts were not approved by the Department of Management services and a sum of Rs.11,938,187 had been paid as salaries and vehicle charges during the year under review. However, the reports on works performed related to the activities of the Project works had not been furnished to audit.

6.5 Extraneous Activities

It was observed that a sum of Rs. 46,393,314 spent by the Project out of proceeds received from the General Treasury for an opening ceremony which was not directly related to achieve the objectives of the Project.