

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project)

Phase III - 2013

The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III for the first accounting 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. This Project is implemented to construct the road section of 9.32 kilometres from Kadawatha to Kerawalapitiya of the Outer Circular Highway using funds provided by the Government of Sri Lanka. However, a Loan Agreement had been signed by the Government of Sri Lanka with the Exim Bank of China on 16 September 2014 to finance the activities carried out by the Project.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the information received, then Ministry of Highways, Ports and Shipping presently, the Ministry of Highways, Higher Education and Investment Promotion 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 and 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 disparity among the regions in Sri Lanka.

According to the decision of the Cabinet of Ministers made at the meeting held on 21 January 2013, the Road Development Authority had entered into a contract agreement with a Contractor of the People's Republic of China on 22 February 2013 to complete the construction works of the road section within 42 months at a cost of Rs.66.7 billion.

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 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 a 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 managements in the preparation of financial statements as well as evaluating their overall presentation of the financial statement. 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 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 operations of Project, the identifications of purchases made out of the Loan etc.,
- (c) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project, and
- (d) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.

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, and
- (b) the funds provided had been utilized for the purposes for which they were provided.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the first accounting year ended 31 December 2013 amounted to Rs.1,205,886,641. The following statement shows a summary of the expenditure for the year under review.

| Description | Expenditure for the year ended 31 December 2013 |
|-----------------------------------|---|
| ----- | ----- |
| | Rs. |
| Land Acquisition and Resettlement | 1,189,616,518 |
| Project Management | 12,054,796 |
| Research and Development | 4,215,327 |
| | ----- |
| | 1,205,886,641 |
| | ===== |

5. Audit Observations

5.1 Accounting Deficiencies

The following observations are made.

- (a) Statement of cash flow had not been prepared and presented along with the financial statements.

- (b) Necessary adjustments had not been made in the accounts to record the cancellation of cheques amounting to Rs.10,701,484 issued on payments of interest and compensation.

5.2 Lack of Documentary Evidence for Audit

- (a) Advances amounting to of Rs.4,397,508 made on various purposes had been transferred to the Resettlement and Site Development Expenses Account without supporting documents.
- (b) Details relating to the interest paid on compensation aggregating Rs.285,265,900 had not been furnished for audit.

6. Financial and Operating Review

6.1 Utilization of Funds

According to the financial statements and information made available the activities of the Project had been carried out during the year under review using contribution amounting to Rs.1,206 million received from the Government of Sri Lanka. Provision amounting to Rs.2,073 million had been made in the Budget Estimate for the year 2013 under the Ministry of Highways, Ports and Shipping.

6.2 Physical Progress of the Road Construction

Although the Contract Agreement had been signed between the Contractor and Road Development Authority on 22 February 2013 the construction works had not been commenced during the year under review.

6.3 Land Acquisition and Resettlement Activities

The following observations were made.

- (a) Action had not been taken to demarcate the land of 2.48 hectares in extent situated at Kadawatha acquired by the Project during the year under review even as at 31 December 2013.

- (b) It was observed that interest aggregating Rs.298,605,978 on delays in payment of compensations for the lands acquired had been paid by the Project as at 31 December 2013.
- (c) The land at Millagahawatte, Heenkenda in Wattala of 2.6348 hectares in extent acquired by the Outer Circular Highway Project – Phase II in February 2007 and transferred to this Project had remained idle since then, without taking an action to distribute among displaced persons. Further, the entire land had been demarcated into 57 plots and only 26 plots had been requested by displaced persons.
- (d) Another land called Jayasumana Watta in Kadawatha had been acquired by the Outer Circular Highway Project – Phase II in the year 2011 and a sum of Rs.377,077 had also been spent by this Project to erect a fence around the land. However, no action had been taken to resettle the displaced people in the land.
- (e) A sum of Rs.53,453,560 had been spent by the Project for reconstruction of a building belonging to Matthumagala Karunaratne Bouddha Maha Vidyalaya to compensate the value of a land acquired by the Project for the construction of the Expressway. However, the deed of the land, approved building plan and other relevant documents had not been made available for audit. Although the Director of Education had agreed to demolish the existing building on the land acquired by the Project and hand over the vacated land to the Project within six months period after receiving the compensations from the Project, the building had not been demolished and the land remained without being handed over to the Project despite the elapse of 9 months from the date of payment of compensation. Further, building plans to construct a four storeyed building had been subsequently changed to three storeyed building arbitrarily. Limited quotations had been called from three contractors nominated by the Department of Education of the Western Province, contrary to the provisions in the Government Procurement Guidelines.

6.4 Human Resources Management

The following observations are made.

- (a) The cadre for the Project had been approved by the Department of Management Services only on 02 April 2014 to be effective from 05 April 2013. However, the operation of the Project Monitoring Unit for Phase III had been commenced with effect from 05 November 2013 with 26 staff members released from Road Development Authority contrary to the recruitment procedure stipulated in the Section 2(1) of the Management Services Circular No.33 dated 05 April.
- (b) Allowance amounting to Rs.80,985 had been paid to a Resettlement Assistant who are not entitled for such allowance in term of the Circular No. DMS 33 of 07 April 2007 of the Department of Management Services.
- (c) Even though the carder for Local Consultants had not been approved by the Department of Management Services, the Project had recruited 09 Local Consultants and paid a sum of Rs.200,000 to them during the year under review.