

## **Veyangoda Flyover Project - 2013.**

The audit of financial statements of the Veyangoda Flyover 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. This Project is implemented under the Loan Agreement No.2012015/SL dated 13 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Bank of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) in Spain.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, the Executing and Implementing Agencies of the Project are then Ministry of Highways, Ports and Shipping presently, Ministry of Highways, Higher Education and Investment Promotions and the Road Development Authority respectively. The objective of the Project is to design, supply and construction of the Veyangoda Flyover. The estimated total cost of the Project is Rs.2,433 million and out of that, Rs. 1,883 million equivalent to EUR 11.2 million agreed to be financed under the Loan Agreement and the balance amount of Rs.550 million agreed to be financed by Government of Sri Lanka. The Project commenced its activities on 23 October 2012 and schedule to be completed by 22 December 2013. The activities of the Project had been completed and taken over by the Road Development Authority on 08 November 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 a 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 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 Agreement,
- (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 measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether financial covenants laid down in the Loan Agreement 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) the financial covenants laid down in the Loan Agreement had been complied with.

#### 4. Financial Statements

##### 4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for year ended 31 December 2013 amounted to Rs. 1,675,174,940 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 1,949,049,789. The following statement shows a summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013.

<u>Description</u> -----	<u>Expenditure for the year</u> <u>ended 31 December</u> -----		<u>Cumulative</u> <u>Expenditure as</u> <u>at 31 December</u> <u>2013</u> -----
	<u>2013</u> <u>Rs</u>	<u>2012</u> <u>Rs</u>	<u>Rs</u>
Cost of the Flyover	1,649,938,124	268,764,065	1,918,702,189
Project Management Cost	23,479,468	5,110,784	28,590,252
Non current Assets	1,757,348	-	1,757,348
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	1,675,174,940	273,874,849	1,949,049,789
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#### 5. Audit Observation

It was observed that the costs aggregating Rs 16,575,493 incurred during the year under review on activities related to a other project called UK Steel Bridge Project had been treated as the cost of the Project and accounted accordingly. Detailed are given below.

<u>Description</u>	<u>Amount</u> Rs
Construction of a Yard at Orugodawatta	2,142,843
Staff Remuneration	10,417,177
Salaries and allowances to a Coordinating Officer	472,500
Office Rent	3,542,973
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Total	16,575,493
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## 6. Financial and Operating Review

### 6.1 Utilization of Funds

According to the financial statements and information made available, certain significant statistics relating to the financing of the Project, budgetary provisions and the utilization of funds of the Project during the year ended 31 December 2013.

<u>Source</u>	<u>Amount agreed to be financed according to the Loan Agreement</u>		<u>Provision made in the Budget Estimate for the year 2013</u>	<u>Funds utilized during the year 2013</u>	<u>Funds utilized up to 31 December 2013</u>
	EUR Mn)	Rs. (Mn)	Rs.(Mn)	Rs.(Mn )	Rs.(Mn )
Spain	11.22	1,883	-	1,366	1,883
GOSL	-	550	200	60	63
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Total	11.22	2,433	200	*1,426	1,946
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\* This amount does not agree with the figure shown in the paragraph 4 of this report as the payables at the year end is not included.

### 6.2 Fruitless Expenses

The office of the Project Monitoring Unit had been shifted to a new premises since April 2013. However, rent amounting to Rs. 535,495 for old building had been paid additionally for the month of March 2013. Further, cleaning charges for old building for the period from April to July 2013 amounting to Rs. 66,000 had also been paid.

### 6.3 Physical Performance

The activities of the Project had been completed on 23 October 2013 and handed over to the Road Development Authority on 08 November 2013.

### 6.4 Land Acquisition Activities of the Project

The Project had acquired 45 plots of land upto 31 December 2013 for the construction of the Flyover. However action had not been taken to register such plots of land at the Office of the Land Registry in terms of Section 44 of the Land Acquisition Act.