

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

The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III 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 implemented to construct the Section of the Outer Circular Highway from Kadawatha to Kerawalapitiya with the length of 9.32 kilometres using funds provided by EXIM Bank of China and the Government of Sri Lanka. An Agreement entered into between the EXIM Bank of China and the Democratic Socialist Republic of Sri Lanka 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 Loan Agreement of the Project, then Ministry of Highways and Investment Promotion, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives 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. The estimated total cost of the Project was US\$ 583 million equivalent to Rs.75,900 million and out of that US\$ 487 million equivalent to Rs.63,356 million was agreed to be financed by the EXIM Bank of China. The construction of the Highway under Phase III was scheduled to be commenced in 01 April 2014 and expected to be completed within 42 months. However, the contract had been awarded on 22 February 2013 and expected to be completed by July 2016.

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

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, 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 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 Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The balance of Rs.1,980,769,681 shown in the Current Account maintained by the Project for Outer Circular Highway Project - Phase I had not been agreed with the balance of Rs.1,981,295,504 of the Current Account maintained by the Outer Circular Highway Project – Phase III for this Project.
- (b) A sum of Rs.3,569,788 payable as at 31 December 2014 to the Outer Circular Highway Project - Phase I for Bore hole investigations had not been brought to the account.
- (c) The value of fixed assets shown in the financial statements had represented only the assets transferred from Outer Circular Highway Project - Phase I. The value of other assets transferred from other Projects had not been ascertained and brought to the accounts of the 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 Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year 2014		as at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Loan	487	63,356	-	-	-	-	-
GOSL	96	12,544	1,374	6	756	34	4,407
	583	75,900	1,374	6	756	34	4,407

3.2 Physical Progress

Although contract for civil works had been awarded on 22 February 2013, construction activities had not been commenced even up to 31 December 2014 and only detailed design works had been carried out during the year under review.

3.3 Matters in Contentious Nature

Even though the payment under foreign funded projects are exempted from Value Added Tax, according to the provisions of Value Added Tax Act, No.14 of 2002, advances amounting to Rs.23.76 million had been paid to the Consultants including Value Added Taxes.

3.4 Land Acquisition and Resettlement Activities

The following observations were made.

- (a) It was observed that interest aggregating Rs.226.62 million on delays in payment of compensations for the lands acquired had been paid by the Project during the year under review. Further, a sum of Rs.309.45 million was remained payable as at 31 December 2014 .

- (b) The land at Millagahawatte, Heenkenda in Wattala of 2.6348 hectares in extent acquired by the Project at a cost of Rs. 28 million in February 2007 had remained idle since then, without taking an action to distribute among displaced persons. Further, a sum of Rs. 30.62 million had been spent for development activities thereon and the land had been demarcated into 57 plots. However, these plots of land had not been allocated among the displaced people up to 31 December 2014.
- (c) Another land called Jayasumana Watta in Kadawatha had been acquired at a cost of Rs. 96 million by the Outer Circular Highway Project – Phase II on behalf of Phase III in 2011 and a sum of Rs.4.71 million had also been spent to development activities of the land. However, no action had been taken to resettle the displaced people in the land during the year under review.
- (d) A sum of Rs.53.45 million had been spent by the Project for reconstruction of a building belonging to Matthumagala Karunaratne Bouddha Maha Vidyalaya as a compensation for a land acquired by the Project for the construction of the Highway. 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 in the land acquired by the Project and hand over the vacated land to the Project within six months after receiving the compensations from the Project, the building had not been demolished and the land remained without being handed over to the Project even after 20 months from the date of payment of compensation. Further, the building plans to construct a 04 storied building had been subsequently changed to 03 storied building arbitrarily. Limited quotations had been called from 03 contractors nominated by the Department of Education of the Western Province, contrary to the Provisions in the Government Procurement Guidelines.

3.5 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 with effect from 05 April 2013. However, the operations 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 2007.
- (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 the Department of Management Services on 07 April 2007.

- (c) Nine local Consultants had been recruited without following the recruitment procedure and paid remuneration amounting to Rs.2.96 million and vehicle hire charges of Rs.4.57 million during the year under review. Job descriptions stipulated in the Terms of Reference of those consultants were not in line with particular tasks which the outcome can be measured. As a result, the beneficial impact and the contribution from those Consultants could not be ascertained in audit.

- (d) Salaries of the Project staff had been paid based on the formula introduced by the Road Development Authority but not based on the salaries stipulated in the Management Services Circular No.33 of 05 April 2007. As a result, a sum of Rs.408,070 had been over paid as salaries during the year under review.