

## **Colombo -Katunayake Expressway Project - 2015**

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The audit of financial statements of the Colombo – Katunayake Expressway Project for the year ended 31 December 2015 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 Agreement 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, then Ministry of Ports and Highways, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Colombo – Katunayake Expressway Project is to design and build a toll charging 04 lane Expressway of 25.8 kilometres with speed of 80 -100 kilometres per hour. The Cabinet of Ministers at its meeting held on 14 August 2008 had granted the approval to divide the construction works of the Expressway into 04 parts and award the contracts to the China Metallurgical Group Corporation to implement as a single Project. Further, the Cabinet of Ministers at its meeting held on 11 September 2008 had granted approval to enter into 04 contracts with the Exim Bank of China to obtain a Loan of US\$ 248.2 million equivalent to Rs.29,750 million to finance 85 per cent of the initial estimated cost of US\$ 292 million equivalent to Rs.34,722 million for the construction of the Expressway. The activities of the Project were commenced on 18 August 2009 and completed in October 2013. However, the financial statements of the Project for the year ended 31 December 2015 had been presented for audit.

### **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 judgment, 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. An 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, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

## **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 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocations made in the Budget Estimated for the year under Review	Funds utilized during the year under review as at 31 December 2015			
	US\$ million	Rs. million		Rs. million	US\$ million	Rs. million	US\$ million
Exim Bank of China	248.20	29,750.00	-	-	-	248.00	29,730.00
GOSL	43.80	4,972.00	58.00	-	83.48	-	12,711.00
Loan from a Local Licensed Specialized Bank	-	5,897.00	-	-	2,958.59	-	5,744.00
<b>Total</b>	<b><u>292.00</u></b>	<b><u>40,619.00</u></b>	<b><u>58.00</u></b>	<b>=</b>	<b><u>3,042.07</u></b>	<b><u>248.00</u></b>	<b><u>48,185.00</u></b>

### 3.2 Physical Progress

The contract for the construction of the Expressway initially awarded in October 2000 at a cost of Rs.9,516 million to a construction company of Republic of Korea had been terminated in 2003. At the time of termination of the contract, the Road Development Authority had spent a sum of Rs.5,392 million out of the funds provided by the Government of Sri Lanka. Subsequently, the contract had been awarded in 2008 to China Matellugical Corporation to complete the balance works of the construction at a cost of US\$ 292 million equivalent to Rs.34,702 million as a turnkey contract. The cost of contraction works had been subsequently increased up to Rs.42,332 million due to several reasons such as changes of the scope of works of construction by introducing a new Kelani Bridge Interchange, a Viaduct at Hunupitiya, design changes at Katunayake, additional works of Interchanges at at Kerewalapitiya and Ja-ela, revision of the sizes of the culverts etc, and price escalations etc. Eventhough the Cabinet of Ministers had directed at its meeting held on 26 July 2013 to obtain an additional loan from China Exim Bank to finance the additional costs, the Road Development Authority had arranged to obtain a loan facility of Rs. 5,897 million from a local Licensed Specialized Bank. The construction works of the Expressway had been completed and opened for public use on 27 October 2013.

### 3.3 Land Acquisition Activities

The following observations are made.

- (a) According to the information made available, only 1,772 plots of land had been registered at the office of the Land Registry in terms of Section 44 of the Land Acquisition Act, out of 2,583 plots of land acquired as at 31 December 2015. Further, interest amounting to Rs.395.8 million had been paid on delays of settling compensation as at 31 December 2015.
- (b) An advance amounting to Rs.1.79 million 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 the Project. However, it was observed that the ownership of the said land had not been transferred to the Road Development Authority.

### **3.4 Closure of the Activities of the Project**

Eventhough the activities to be carried out under the Project had been completed, action had not been taken by the Consultant of the Project to submit the Project Completion Report. Further, the Executing Agency of the Project had not issued instruction to the Project Monitoring Unit to hand over all the assets and liabilities of the Project and prepare the financial statements for wind-up purposes.