

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase I - 2015

The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase I 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. This Project is implemented under the Loan Agreement No.SL-P 89 dated 28 March 2007 entered into between the Democratic Socialist Republic of Sri Lanka and then Japan Bank for International Co-operation, presently the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highways, 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 is to a construct Highway 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. As per the Loan Agreement, the estimated to total cost of the Project amounted to Japan Yen 29,182 million equivalent to Rs. 26,263 million and out of that Japan Yen 21,074 million equivalent to Rs.18,966 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 01 December 2009 and scheduled to be completed by 31 May 2013. Eventhough the activities of the Project was completed as at 30 April 2015, the financial statements for the year ended 31 December 2015 had been prepared and 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 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 equipment 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 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,
- (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 Un-reconciled Balances

The payable balances of Rs. 676.08 million and Rs. 984.91 million shown in the current Accounts maintained by the Project with the Outer Circular Project Phase II and Phase III respectively had not agreed with the balances of Rs.552.07 million and Rs.1,984.23 million shown in the current accounts maintained by the Outer Circular Highway Project Phase II and Phase III respectively with the Project.

2.2.2 Non – Compliance with Laws, Rules and Regulations

According to the Finance Circular No.250 dated 27 February 2003 of Road Development Authority, it is the responsibility of the Project Director to ensure that all the assets and inventories used by the Project are transferred to the Road Development Authority at the completion of the Project. Further, the prior approval of the General Manager of Road Development Authority is required to be obtained on assets handed over from one Project to other Project. However, the assets procured by the Project had been transferred to other Projects without having prior approval of the respective party.

2.2.3 Lack of Documentary Evidence for Audit

Details such as dates of transfer and officers of the Road Development Authority who taken over 14 motor vehicles procured by the Project through the contractor at a cost of Rs. 44.03 million had not been furnished for audit.

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 | | Allocation made in the Budget Estimate for the year under review | Funds utilized during the year up to 31 December 2015 | | | |
|--------|---|---------------|--|---|--------------|---------------|---------------|
| | JPY million | Rs. million | | Rs. million | JPY million | Rs. million | JPY million |
| JICA | 21,074 | 18,966 | 2,231 | 1,858 | 2,175 | 21,923 | 27,785 |
| GOSL | 8,108 | 7,297 | 85 | 90 | 106 | 5,035 | 6,345 |
| | <u>29,182</u> | <u>26,263</u> | <u>2,316</u> | <u>1,948</u> | <u>2,281</u> | <u>26,958</u> | <u>34,130</u> |

3.2 Physical Progress

The construction works of the Phase-01 of the Highway from Kadawatha to Kaduwela commenced on 01 December 2009 had been completed at a cost of Rs. 1,428.83 million and opened for the use of general public on 08 March 2014. However, the activities of the Project Monitoring Unit had been continued upto 30 April 2015.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that the scope of works of the construction of the Highway was changed regularly. According to the information received, civil works valued at Rs. 4,662 million had been removed from the originally designed scope of works through 170 variation orders and additional works valued at Rs. 80.59 million had been carried out under 06 other variation orders. The following further observations are made.
- (i) The construction of the interchange at Athurugiriya and permanent interchange at Kaduwela had been introduced subsequently as variations for the main contract. However, separate contracts had been offered to the same contractor at Rs. 2,077 million and Rs. 475 million respectively. According to the report presented by the Project Engineers, the contractors had made several major variations of the works on construction of the above mentioned interchanges in 29 and 23 instances respectively without prior approvals.
- (ii) The construction works of the interchange at Kotalawala in Kaduwela was planned to carry out under Phase II of the Project. However, a temporary interchange had been constructed at cost of Rs.126.34 million under this Project due to delays in construction of the permanent interchange. Subsequently, the temporary interchange had been demolished at a cost of Rs.10.10 million.

- (iii) The concurrence from the relevant parties in terms of Clause 59.1 of the Conditions of Contract had not been obtained by the contractor for the additional works on construction of pavements and laying of asphalt at the interchange at Athurugiriya which were carried out under variation orders at a cost of Rs. 12.29 million through a sub-contractor.

- (b) The weaknesses observed in audit on adherence with quality measures on construction works of the Highway are described below.
 - (i) According to the provisions made in the construction contract, the contractor should adhere with the quality assurance system for the purposes of road construction and therefore, quality assurance staff should be planned and deployed by the contractor. However, the contractor had not complied with the above requirement and therefore, the additional staff for quality assurance purposes had been deployed by the Consultant of the Project and claimed a sum of Rs.6.91 million through variation orders.
 - (ii) The mechanism for temperature controls on mass concrete in pile caps, piers and abutments etc had not been properly specified in the original Bill of Quantities. Therefore, an additional cost of Rs. 49.88 million had been incurred under a variation order to adopt mechanism for temperature controls and adhere with quality standards.
 - (iii) It was observed 05 Non Conformance Product Notifications had been issued by the Consultant from June 2012 to September 2014 on significant failures of maintenance works of the Highway and no evidence were received for audit to prove the action taken to rectify defects identified even as at 31 December 2015.

- (c) As stipulated in the Clause 62.2 of the Condition of the Contract, the Interim Payment Certificates which exceed the value of Rs.200 million should be taken into consideration for the evaluation purposes. However, Interim Payment Certificates which were not exceeded Rs.200 million had been evaluated in 15 instances up to 31 December 2015.

3.4 Extraneous Transactions

The following observations are made.

- (a) It was revealed in audit that the works such as rehabilitation of provincial roads, constructions of side walls and other buildings at the premises owned to outside parties had been carried out at a cost of Rs. 22.78 million which were not relevant to the main contract.

- (b) The compensation payable to the outside parties on property damages amounting to Rs. 34.11 million had been settled, out of the allocation of Rs. 75 million made on environmental control purposes of the Highway.

3.5 Land Acquisition and Resettlement Activities

A land of 324.17 perches in extent at Kaduwela had been acquired by the Project at a cost of Rs. 71.82 million in 2009 for resettlement of displaced persons and developed at a cost of Rs. 23.92 million. The land had been demarcated into 21 plots and out of that 08 plots had remained idle as at 31 December 2015 and encroached subsequently by outside parties.

3.6 Closure of the Activities of the Project

The activities of the Project had been completed in April 2015 and the operation of the highway was managed by the Road Development Authority since June 2015. However, the winding up accounts of the Project had not been prepared.