

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II - 2016

The audit of financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II for the year ended 31 December 2016 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 initiated with the Grant amounting to Rs.417 million equivalent to Japan Yen 580 million received for detailed design study on the Outer Circular Highway to City of Colombo under an Agreement entered into between the Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka on 20 February 2001. Further, the Loan Agreements Nos. SL-P 91 and SL-P101 had been entered into between the Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka on 29 July 2008 and 22 March 2011 respectively for the construction of the section of 8.9 kilometres of the Outer Circular Highway from Kaduwela to Kadawatha under the Phase II of the Greater Colombo Urban Transport Development Project.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Greater Colombo Urban Transport Development Project Phase II, 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.

As per the Loan Agreements, the estimated total cost of the Phase II of the Project amounted to Japan Yen 44,097 million equivalent to Rs.55,482 million and out of that, Japan Yen 37,406 million equivalent to Rs.46,759 million was agreed to be financed by the Japan International Cooperation Agency. The construction works under the Phase II of the Project was scheduled to be commenced in May 2008 and expected to be completed within 48 months by April 2012. However, the contract for construction of the section of the Highway had been awarded on 22 October 2009 and the respective construction works completed on 18 July 2015. However, the financial statements for the year ended 31 December 2016 had been furnished 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 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 Loans, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans 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 Accounting Standards.
- (h) Whether the 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 Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

My Opinion is qualified based on the matters describe on 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) A sum of Rs. 8.30 million payable to the local and foreign consultants as at 31 December 2016 had not been brought to the financial statements of the Project.
- (b) Commitment and interest charges aggregating Rs. 80.26 million paid by the Department of External Resources on behalf of the Project had not been brought to the financial statements of the Project.

2.2.2 Un-reconciled Balances

The overhead charges amounting to Rs.971,574 payable to the Road Development Authority shown in the financial statements of the Project had not been agreed with corresponding receivable balance of Rs.164,274 shown in the financial statements of the Road Development Authority as at 31 December 2016. Eventhough other balances aggregating Rs. 2.07 million had also been shown as payable to the Road Development Authority in the financial statements of the Project, no any balances had been shown in the financial statements of the Road Development Authority, as receivables.

2.2.3 Lack of Evidence for Audit

The physical verification of the assets such as furniture and office equipment procured by the Project at a cost of Rs.304.96 million had handed over to the various entities at the end of the period of the Project could not be carried out, due to lack of records maintained by the Project.

2.2.4 Non- Compliance with Laws, Rules and Regulations

According to the Clause 102.1 of the Contract Agreements and the Circular No.250 of 27 February 2003 of the Road Development Authority, motor vehicles procured by the Project through the contractors required to be handed over to the Road Development Authority after completion of the period of contracts. However, the motor vehicles procured at a cost of Rs.186.98 million through the contractors had been handed over to other Donor Funded Project. Further, the value of such motor vehicles had been continuously shown in the financial statements as the assets of the Project, eventhough the ownerships of such assets had been transferred on 05 September 2016.

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 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>				
				during the year 2016		up to 31 December 2016		
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million	
JICA								
Loan No- 91	5,718	5,445	}	1,092.47				
Loan No-101	31,688	41,314		1,410	1,382.08		36,323.97	45,953.46
GOSL	6,691	8,723		50	32.06	40.56	1,077.41	1,363.03
Total	<u>44,097</u>	<u>55,482</u>	<u>1,460</u>	<u>1,124.53</u>	<u>1,422.64</u>	<u>37,401.38</u>	<u>47,316.49</u>	

3.2 Physical Progress

The construction works of the Phase II of Outer Circular Highway consisted with 8.9 kilometres from Kaduwela to Kadawatha which estimated at a cost of Rs.44.88 billion excluding land acquisition and other administration cost had been completed and handed over to the Road Development Authority on 18 July 2015 and opened for the use of general public on 17 September 2015. However, the construction works valued at Rs.47.37 billion had been certified as at 31 December 2016 and the final bills on construction works completed had not been received to the Project Management Unit even as at 30 September 2017.

3.3 Lands Acquisition and Resettlement Activities

The following observations are made.

- (a) According to the information received, out of 1,221 plots of land including plots of crown land scheduled to be acquired, only 1,205 plots of land including plots of crown land had been acquired as at 31 December 2016. Further, compensation

aggregating Rs.1,790.70 million had been paid for 614 plots of land up to 31 December 2016. It was observed that a sum of Rs.290.05 million had been spent as interest due to delays in settlement of compensation, eventhough incentives amounting to Rs. 912,574 had been paid to the officers involved in land acquisition purposes.

- (b) The Project had taken action to resettle the families displaced at Rukaththanagahawatta in Biyagama and a sum of Rs.22.83 million had been spent thereon by the Project. The site visits made by the auditors on 11 July 2017 had revealed that 10 plots of land had remained idle due to lack of demands of the affected parties. Further, other 07 plots of land were not in a position to use for resettlement purposes, as a gabion wall constructed by dividing the plots to prevent floods.