

## **Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III - 2016**

-----

The audit of financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III 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 is implemented under the Loan Agreement No. PBC (2014) 15 Total No. (309) dated 16 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and Export and Import Bank of China.

### **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 objective of the Project is 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 of the country, thereby contributing to the strengthening of economic development among the regions in Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 590 million equivalent to Rs.76,200 million and out of that US\$ 494 million equivalent to Rs.63,356 million was agreed to be financed by the Export and Import Bank of China. The Project commenced its activities on August 2014 and scheduled to be completed by June 2019.

### **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 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 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 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 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 accounting deficiencies were observed in audit.

- (a) A sum of Rs 871.66 million payable to the contractor as at 31 December 2016 had not been brought to the financial statements.
- (b) Retention money amounting to Rs 168.19 million had been recorded by the Project on memorandum basis instead of being shown as payables in the financial statements. As a result, the value of work-in-progress shown in the Statement of Financial Position as at 31 December 2016 was understated.
- (c) The mobilization advance amounting to Rs 10,054.18 million made to the contractors had been shown under work-in-progress instead of being shown it separately.

## 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 Agreement		Allocation made in the Annual Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review		up to December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
EXIM Bank	494	63,356	8,000	47	6,957	60	8,885
GOSL	96	12,844	1,700	11	1,592	60	8,807
<b>Total</b>	<b><u>590</u></b>	<b><u>76,200</u></b>	<b><u>9,700</u></b>	<b><u>58</u></b>	<b><u>8,549</u></b>	<b><u>120</u></b>	<b><u>17,692</u></b>

### 3.2 Physical Progress

According to the information received, the contractor engaged in civil works had mobilized on 25 August 2014 whilst the consultant had mobilized 02 months later on 13 October 2014. Overall physical progress of the works as at 31 December 2016 had remained at 9.5 per cent against the expected progress of 10.35 per cent as at that date.

### **3.3 Contract Administration**

The following observations are made.

- (a) According to the Section 503.4 of Technical Specification attached to the contract agreement, the temperature differential between the interior section and the outside surface of the reinforcements shall not be exceeded 20 Centigrade. However, according to the quality assurance reports, the temperature differential of 11 pile caps were exceeded the above specification. According to the explanations made by the Project Director, the Structure Design Engineer had agreed with the variations based on thorough analysis and decided that the pile caps withstand at temperature differentials up to 30 Centigrade due to the reinforcements made. Therefore, the contractor was allowed to continue the construction works at own risk, as the respective works were on the critical path.
- (b) According to the revised construction program on fabrication works of 426 Void Beams should be completed at the end of January 2017 by the contractor. However, the contractor had fabricated only 246 Void Beams as at 31 January 2017.
- (c) Although a sum of Rs.120 million had been paid for shifting of high voltage electricity lines crossing over the Highway at 05 locations, fruitful action had not been taken by the Ceylon Electricity Board to shift the electricity lines even as at 31 December 2016. It was observed the delays caused thereon had negatively affected for the road construction works.
- (d) The contract for the diversion of Mahara Mudun Ela had been awarded at a cost of Rs.8.70 million to Sri Lanka Land Reclamation and Development Corporation, as a variation. The contractor had completed the respective works at Rs. 3.34 million thus revealed that the works under the contract was not realistic and overestimated. The overpayments amounting Rs.5.36 million made thereon had been set off against the consultancy fees of Rs. 7.36 million which required to be paid to the Corporation for hydrological studies conducted by the Corporation without being entered in a formal agreement.
- (e) According to the contract agreement a foreign Consultant was required to be deployed as a Senior Geotechnical Engineer for 07 months. However, an arrangements had been made to obtain the service of the National Building Research Organization and deploy a Senior Engineer on part time basis with a Junior Engineer in full time basis at a cost of Rs.584,000 per month.

### **3.4 Land Acquisition and Resettlement Activities**

The following observations are made.

- (a) According to the information made available, 1,267 plots of land had been acquired by the Project and out of that only 142 plots of land had been registered under the Section 44 of Land Acquisition Act, even up to 28 February 2017. Further, a sum of Rs.219.47 million had been incurred up to 31 December 2016 as interest on delays in settlement of compensations. Further, it was observed that 60 families had not

vacated their residencies at the construction site as at 31 December 2016 due to delays in completion of resettlement activities.

- (b) The Project had award a contract to a private party to develop resettlement site at Jayasumanawatte at a cost of Rs.5.34 million and the date of completion of works had not been specified in the contract agreement. However, development works had not been completed up to 20 March 2017.
- (c) According to the information received, the development activities of the resettlement site at Millagahawatta of 2.6348 of hectare had been completed in April 2014. However, 15 plots of land, out of 72 plots of land had remained idle due to lack of demand from the affected people.

### **3.5 Matters in Contentious Nature**

According to Section 504.2.1 of Technical Specifications, the steel reinforcement bars should be complied with the British Standard- 4449. However, the Project had allowed to contractor to import 4,727,985 kilograms of alloy hot rolled deformed steel bars at a cost of Rs. 266.14 million without exploring possibilities to procure locally manufactured steel bars with same standard at lower cost and saving of import taxes amounting to Rs.82.44 million incurred thereon.

### **3.6 Human Resource Management**

The approved cadre of the Project consisted with 34 staff members and out of that the posts of 03 Engineers, a Resettlement Officer, a Technical Officer and Resettlement Assistant had remained vacant even as at 31 December 2016. However, 14 other persons had been recruited for minor cadre position exceeding the approved cadre and a sum of Rs 1.95 million had been paid them during the year under review.