

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II - 2017

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 2017 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 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 the Outer Circular Highway from Kaduwela to Kadawatha of 8.9 kilometres 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 Highways and Road Development 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 the City of Colombo in order to mitigate traffic congestion in the Colombo Metropolitan Region and enhance connectivity with other regions 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 commenced on 22 October 2009 and completed on 18 July 2015. However, the financial statements for the year ended 31 December 2017 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 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.

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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 Policies

The costs on construction of the Expressway had been continuously shown under the work-in-progress of the financial statements of the Project even though the construction work of the Expressway from Kaduwela to Kadawatha had been completed on 18 July 2015.

2.2.2 Accounting Deficiency

The consultancy fee aggregating to Rs.24.20 million payable as at 31 December 2017 had not brought to the financial statements.

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 2017 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>			
	JPY million	Rs. million		JPY million	Rs. million	JPY million	Rs. million
JICA							
Loan No SL- P 91	5,718	5,445	} 350	278.59	370.69 *	34,814.48	46,324.15
LoanNo SL-P101	31,688	41,314					
GOSL	6,691	8,723	100	64.63	86	1,089.00	1,449.03
Total	<u>44,097</u>	<u>55,482</u>	<u>450</u>	<u>343.22</u>	<u>456.69</u>	<u>35,903.48</u>	<u>47,773.18</u>

3.2 Physical Progress

The construction works of the Outer Circular Highway of 8.9 kilometres from Kaduwela to Kadawatha, estimated at a cost of Rs.44.88 billion had been completed on 18 July 2015. According to the works certified as at 31 December 2017, the total cost of the construction amounted to Rs.47.82 billion. However, the claims on prolongation cost amounting to Rs.4.37 billion made by the contractor based on the extension of time of 190 days approved subsequently, had remained unsettled as at 31 December 2017 and referred to the Dispute Adjudication Board.

3.3 Issues on Financial Controls

The commitment charges amounting to Rs.66.41 million had been recovered by the Lending Agency as at 31 December 2017 on undisbursed balance of the Loan, due to delays in implementation of the Project.

3.4 Land Acquisition and Resettlement Activities

The following observations are made.

- (a) According to the information received, out of 1,323 plots of land scheduled to be acquired by the Project, only 1,205 plots of land had been acquired and compensation amounting to Rs.1,786 million made thereon as at December 2017. However, only 614 plots of land had been registered under the Section 44 of the Land Acquisition Act as at that date. Further, it was observed that proper records had not been maintained by the Project, as enable to verify the plots of land plots acquired, including crown lands .
- (b) The Project had taken action to resettle the families displaced in 28 plots of land at Rukaththanagahawatta in Biyagama acquired by the Project at a cost of Rs.22.8 million. Out of that 07 plots of land were not suitable for resettlement purposes due to construction of a gabion wall by dividing the respective plots of land to prevent seasonal floods.
- (c) It was observed that a sum of Rs.301.60 million had been spent as at 31 December 2017, as interest on delays in settlement of compensation on lands acquisition compensation, eventhough the incentives had been paid to the land acquisition officers to accelerate the land acquisition works.

3.5 Closure of the Activities of the Project

Eventhough the activities of the Project and the period of the Loan had been completed on 18 July 2015, necessary instructions had not been issued by the Executing Agency to transfer the responsibilities to the Implement Agency to settle the outstanding balances and close the activities of the Project Monitoring Unit as enable to wind up the accounts of Project.