

## **Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III - 2019**

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The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III for the year ended 31 December 2019 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 read in conjunction with provisions in 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. My comments and observations which I consider should be reported to Parliament appear in this report.

### **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 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. However, the date of completion of the activities of the Project had been extended up to 03 December 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified Opinion**

I conducted my audit in accordance with the Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards, are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Projects ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **1.6 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiencies

<b>Accounting Deficiencies</b> -----	<b>Impacts</b> -----	<b>Management Responses</b> -----	<b>Auditor's Recommendations</b> -----
(a) Cost aggregated Rs.8.13 million incurred for the shifting of high tension electricity line in the main alignment of the road and resettlement site development cost of the Jayasumanawatta and Millagahawatta lands had been capitalized to Mabola and Elakanda lands without being recorded under the work-in-progress of the Project.	The cost of Mabola and Elakanda lands had been increased by irrelevant cost.	The expenses on resettlement site development works of Jayasumanawatta and Millagahawatta lands and the cost of the lands for Mabola and Elakanda (Uswetakeyyawa) were made through the vote of Land and Land Improvements.	Action need to be taken to comply with accounting standard to show the value of assets correctly.
(b) Account payable amounting to Rs.1,984 million of the Outer Circular Highway Project (Phase I) had been shown under current liability in the financial statements of the Project since 2015. However, operation activities of the Outer Circular Highway Project (Phase I) had been closed down in 2015 after the assets transferred to the Road Development Authority.	Overstatement of current liability.	of OCHP Phase I and Phase III are operated as one project up to 31.07.2013. The two projects are separated on 01.08.2013 under two Project Directors. In the OCHP Phase III account, Rs. 1,984.0 Mn is appearing as a liability to the OCHP Phase I from the beginning.	Action should be taken to show correct value of assets and liabilities on the financial statement of the Project as at reporting date.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

The contract for the construction of the Expressway had been awarded on 21 February 2013 at a cost of Rs.66,690 million to a foreign company selected in unsolicited basis under the approval granted by the Cabinet of Ministers on 31 January 2013. Even though the contractor had mobilized in August 2014, the related works had been commenced on 01 January 2016 after delay in 16 Months, due to

Government changes and subsequent changes made in the scope of works. Although the Project was expected to be completed on 13 June 2019, the completion date of Project had been extended up to 10 December 2019 by 180 days, due to slow progress of the works carried out by the contractor. The overall progress of the construction works of the Highway was remained at 96.13 per cent as at 31 December 2019 against the targeted progress of 100 per cent as at that date. However, the balance works of the Project could not be completed, due to the expiration of loan before completion of road construction work. As a result, most of the essential works valued at Rs.1,417 million could not be completed due to lack of funds.

**3.2 Contract Administration**

<b>Audit Issues</b> -----	<b>Impacts</b> -----	<b>Responses of the Management</b> -----	<b>Auditor's Recommendations</b> -----
(a) Although the effective date of the Loan was 03 December 2014, the commencement of disbursements had been delayed up to 30 December 2015, due to scope changes and delay in settlement of 5 per cent advance to the contractor from local fund. As a result, commitment charges amounting to Rs.91.63 million had been paid by the Project.	Possibility to increase the cost of the Project.	The Minister of Highways has appointed two committees to review this project in year 2015. One of the committee has instructed to reduce the scope of work and finally a Supplementary Agreement has been signed in between the RDA and the Contractor for the revised scope of work on 23.12.2015. In addition to that 5 Present of the Contract sum had to be made to the Contractor as the local portion.	Action should be taken to identify the scope of works of the Project correctly at the beginning and need to maintain proper plan to reduce the unnecessarily cost of the Project.
(b) According to the sub clause 73.2, local taxation condition stipulated in volume II of the contract agreement, the contractor is not eligible for reimburse or the exempt the corporate and personal taxes accrued to him in the Employer's country base on his profit. However, the Project	Possibility to increase the cost of the Project.	Pursuant to the Sub clause 70.5, Subsequent legislation appearing of the Volume II, Conditions of Particular Applications, the Contractor is eligible only for additional cost incurred on Income	Action should be taken to comply with the Income tax ACT and the condition of the contract agreement.

had taken action to reimburse the income tax amounting to Rs.359.46 million as the contractor's claim, due to increase of income tax rates contrary to the above condition of the contract and the Sub clause 70.5 Subsequent legislation appearing the Volume II, Conditions of Particular applications of the contract agreement.

Tax payment due to change of legislation and it has been reimbursed.

### 3.3 Underutilized Resources

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a) It was observed that, out of the total loan allocation, a sum of US\$ 115.49 million equivalent to Rs.20,926 million representing 23.38 per cent of the allocation of total loan had not been utilized by the Project even up to the date of loan expiration on 03 December 2019, due to scope changes, slow progress of works carried out by the contractor and delay in land acquisition activities, etc.	Impossible to complete the total scope of works of the Project.	Though the loan is made effective on 03.12.2014, the civil work was commenced only on 01.01.2016.	The constructions works of the Project should be properly executed to utilize total loan before expiration of the loan facilities.

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| (b) The contractor's interim payment certificate Nos. 20,21,22 and 24 for the period from June to September 2018 had not been settled due to lack of budgetary provisions for the foreign loan for the year 2018. As a result, a sum of Rs.40.58 million had to be provided in the year 2019 for settlement of interest payment to the contractor. | Increase the cost of interest on delayed payments. | The respective IPC's were delayed as the IPC's have not been submitted to the donor for payments due to lack of Allocation or budgetary provisions. | Allocation for the payment should be arranged by the Project to settle the contractor's bills on time. |
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### 3.4 Issues on Land Acquisition

<b>Audit Issues</b>	<b>Impacts</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a) According to the information made available, 1706 plots of land including 234 plots of crown land in the area under the purview of Divisional Secretariats of Wattala and Mahara had been acquired by the Project for road construction purposes and compensation amounting to Rs.6,431.07 million had been paid thereon as at 31 December 2019. Further, It was observed that the interest amounting to Rs.968.22 million had been paid by the Project as at 31 December 2019, due to delays in settlement of compensation claims. However, the ownership of 415 plots of land had only been transferred to the Road Development Authority.	Cost of the interest on delayed compensation will be increased.	The interest payments had to be made for the delay of Section 17 payments to the affected parties due to the lack of imprest at the project. There is a delay in publishing Section 44 and up to now the ownership of 415 lots have been transferred to the RDA.	Allocation and required imprest should be arranged to settle the compensation and acquire the land according to the Land acquisition plan.
(b) The land extent of 2.43 hectares at Jayasumanawatta had been procured in 2014 at cost of Rs.96.19 million by the Project for	Out of total land cost, a sum of Rs.77.35 million could not be	There are 36 land lots at Jayasumnawatta and up to now only 09 persons have paid for land lots. Then we have reallocated	Action need to be taken to allocate the balance land lots

resettlement purposes. According to the information received, action had been taken by the Project to recover the costs of the plots of land in installments basis from 36 families. However, a sum of Rs.18.84 million from 08 families had only been recovered by the Project as at 31 December 2019.

recovered from the 27 families.

the balance land lots for the displaced people due to the additional acquisition for Kadawatha Interchange. They have requested some time period to pay for land lots as the project has not fully compensated them.

before closing down the Project.

(c) Although the Project had incurred Rs. 22.31 million to acquire 27.02 hectares land at Maththumagala for the construction A3 interchange near the Peliyagoda-Puttalam road, the Project had subsequently canceled the A3 interchange at Maththumagala and introduced new interchange at Kadawatha. As a result, the cost incurred Rs.22.31 million to acquire the land at Maththumagala A3 interchange has become fruitless.

The expenditure incurred become fruitless.

In the original design there was an entrance and exit to A3 road from the expressway. Later it has been identified that some design requirements are not satisfying if we provide an entrance and exit to A3 road as the Kerawalapitiya interchange is situated nearly 900 m away from the A3 road. However the EOM&M division is in the view that they need land for putting up buildings for operational and maintenance requirements and this land will be used for that purpose in future.

Action should be taken to minimize the loss.