

## **Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III - 2017**

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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 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 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 for the purpose of construction of the Outer Circular Highway – Phase III from Kadawatha to Kerawalapitiya.

### **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, Road Development and Petroleum Resources Development 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, Colombo- Katunayake 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, 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 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 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 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) 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.

- (a) It was observed that the balances payable to the contractors shown in the financial statements for the year ended 31 December 2017 had been overstated by Rs 1,613.19 million and the balance shown under the Foreign Loan Account had been understated by similar amount, due to an accounting error.
- (b) The recoverable balance of the mobilization advance amounting to Rs.6,063.42 million as at 31 December 2017 had been understated by Rs.1,536.18 million, due to an accounting error. Further, the balance shown under the retention money in the financial statements had also been overstated by Rs.6,256.02 million due to a similar error.

### **2.2.2 Non- Compliance with Laws, Rules and Regulations**

Overhead charges amounting to Rs.1.91 million had been remitted by the Project to the Road Development Authority during the year under review, contrary to the instruction made in paragraph 8.3.9 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises.

## **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 Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
EXIM Bank	494	63,356	12,070	78.93	12,065	137.05	20,950
GOSL	96	12,844	593	3.15	482	60.77	9,289
<b>Total</b>	<b><u>590</u></b>	<b><u>76,200</u></b>	<b><u>12,663</u></b>	<b><u>82.08</u></b>	<b><u>12,547</u></b>	<b><u>197.82</u></b>	<b><u>30,239</u></b>

### **3.2 Physical Progress**

According to the information received, the contract for the construction of the Highway 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 of the Cabinet of Ministers granted on 31 January 2013. Eventhough the contractor had mobilized in August 2014, the related works had been commenced only on 01 January 2016 due to the political situation prevailed in the country and subsequent changes made on the scope of works. The overall progress of the construction works of the Highway had remained at 43.13 per cent as at 31 December 2017 against the targeted progress of 53.99 per cent as at that date, due to poor planning and inadequate resources deployed by the contractor. Further, according to the progress reports made in December 2017, no physical progress had been reported on 64 design tasks, out of 154 design tasks required to be completed as at 31 December 2017, due to shortage of Design Engineers deployed by the Project and the contractor.

### 3.3 Contract Administration

The following observations are made.

- (a) It was observed that the cost of construction of the Outer Circular Highway - Phase III agreed with the contractor is remained high when compared with the costs of construction of other Phases of the Highway, due to higher rates applied for several items included in the Bill of Quantities prepared thereon. The details are given below.

<b>Section of the Highway</b> -----	<b>Distance</b> -----	<b>Cost per kilometre</b> -----
	kilometres	Rs. million
Phase -I Kottawa to Kaduwela	11.00	2,271
Phase-II Kaduwela to Kadawatha	8.90	6,971
Phase-III Kadawatha to Kerawalapitiya	9.32	7,155

- (b) It was observed that the works estimated at a cost of Rs 10,775 million under the construction of the section of the interchange at Kerawalapitiya and inner 04 lanes included in the initial Bill of Quantities had been cancelled and new works of construction of interchange at Kadawatha, new starting point at 0+980 kilometre and construction of Viaduct from 7+900 kilometre to 8+543 kilometre of the Highway had been introduced subsequently. Further, the works under 74 items under earth works and other civil construction works to be carried out, as per the Bill of Quantities at an estimated cost of Rs. 5,188.31 million had not been implemented by the contractor as at 31 December 2017.

### 3.4 Human Resource Management

It was observed that a Design and Project Monitoring Consultant had been deployed by the Project Monitoring Unit under contract basis without the approval the Department of the Management Service and remuneration amounting to Rs.4.70 million had been paid during the year under review

### **3.5 Issues on Financial Controls**

Commitment fee amounting to Rs.91.63 million had been recovered by the Lending Agency on underutilized balances of the Loan, according to the Article 2.2.7 of the Loan Agreement, due to delays in commencement of activities of the Project.

### **3.6 Issues on Land Acquisition and Resettlement Activities**

The following observations are made.

- (a) According to the information made available, 1,280 plots of land including 296 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.6,313.70 million paid thereon as at 31 December 2017. However, the ownership of 245 plots of land had only been transferred to the respective Divisional Secretariats.
- (b) It was observed that the interest amounting to Rs.1,066 million had been paid by the Project as at 31 December 2017 due to delays in settling the compensation claims made. Further, according to the provisions made in the Circular No.11 of 10 January 2007 of the Ministry of Highways, the compensation on statutory value of the land and buildings are allowed to be increased up to 40 per cent of the valuations made thereon by the Land Acquisition and Resettlement Committee. The audit tests carried out thereon had revealed that compensation aggregating Rs.8.06 million had been paid during the year under review in 08 instances over the respective limit of 40 per cent, contrary to above instructions. Further, the test check carried out on payments approved by the Super Land Acquisition and Resettlement Committee had revealed that the compensation ranging from 55 per cent to 179 per cent over the compensation approved by the Land Acquisition and Resettlement Committee had been approved by the said Committee in 05 instance during the year under review.
- (c) The Project had acquired a land called Millagahawatta of 2.63 hectare in Wattala Divisional Secretariat area at a cost of Rs.34 million and spent a sum of Rs.48.37 million to develop the land for resettlement purposes. Even though the Project had expected to resettle 57 families, only 28 families had been resettled as at 31 December 2017.
- (d) The land called Jayasumana watta of 2.43 hectare had been procured in 2014 at cost of Rs.96.19 million by the Project for resettlement purposes. According to the information received, action had been taken by the Project to recover the costs of the plots of land in instalments basis from 36 families resettled. However, a sum of Rs 14.24 million had only been recovered as at 31 December 2017 from 07 families. Further, the Project had agreed to allocate 58 plots of land to encroachers and out of that only 33 families had been resettled in the respective plots of land as at 30 October 2018.

### **3.8 Issues on Environmental and Safety Management**

It was observed that the public representations were raised by the road users and residents of the area during the year under review on several environmental and safety issues such as dumping of waste materials at sites, drainage and canals blocked and collection of rainwater in the admixture tanks etc, and no action had been taken to monitor such issues eventhough the allocation amounting to Rs.103 million had been made thereon in the Bill of Quantities.