

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase III - 2020

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 2020 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.

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, there by 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 activities of the Project had been extended up to 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 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 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.

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

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**

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Balance of the Current Account with OCHP-1 amounting to Rs.1,984 million shown under the liabilities transferred to Road Development Authority could not be verified by the audit, due to lack of documentary evidence as the Outer Circular Highway Project (Phase I) had been closed in 2015.	The Project office is fully closed and all the assets have been transferred to the RDA.	Action should be taken to show correct value of assets and liabilities on the financial statements of the Project as at reporting date.
(b)	A differences of Rs.200 million had been observed between the payable balance of the contractor as per the winding up accounts for the year 2020 and the information received to audit.	The retention money was not fully released to the Contractor and certain payments have been hold for uncompleted works.	Action need to be taken to reconcile the payable balance of the contractor as at 31 December 2020 with other information of the Project.

3. **Physical Performance**

3.1 **Physical and Financial Progress of the Activities of the Project**

The contract for construction works of the Project was awarded on 21 February 2013 at a cost of Rs.66,690 million and the road construction works had been commenced on 01 January 2016 after delay in 16 months. Although the road construction work was expected to be competed on 13 June 2019, it had been extended up to 10 December 2019 by 180 days, due to delay in handing over the possession of site. However, the Outer Circular Highway was opened for the public on 09 November 2019 without completing most essential works valued of Rs.1,417 million. The reported physical progress of the Project was 95 per cent against the targeted progress of 100 per cent as at end of the Project.

3.2 Contract Administration

No	Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Out of US\$ 494 million of loan allocation, US\$ 115.49 million had not been utilized by the Project before expiration of the loan. Further, commitment charges of Rs.91.63 million, interest on delay payment of Rs.87.28 million and exchange loss Rs.9,308.22 million had been charged to the loan account as at end of the loan closing date. However, a sum of Rs.765.49 million payable to contractor including retention could not be settled even as at 26 March 2021.	The main problem was that the EXIM bank loan was expired on 03.12.2019 after 05 years. But we were unable to utilize the loan in year 2015 due to political reason. The loan amount is US\$ 494.04 Mn and up to the last date we were able to disburse only US\$ 378.54 Mn.	The constructions works of the Project should be properly planned and executed to utilize total loan before expiration of loan facilities.
(b)	The total cost estimate of the Project had not been prepared accurately and 64 items in the Bill of Quantities valued at Rs.2,506 million had not been fully attained by the contractor and construction work of 11 items in the Bill of Quantity valued at Rs. 3,721 million had been completed less than 50 per cent.	There are another 62 items where the full BOQ amount have not been used. But there is a clear reason for each and savings of these items.	Total cost estimate of the Project should be prepared correctly by adopting relevant detailed engineering studies, soil testing designing and BOQ quantities of the Project.
(c)	The Project had incurred Rs.3,961 million for the soft ground treatment against the provision of Rs.1,500 million for the item No.10.12 in the Bill of Quantities	No one can decide or estimate the actual cost before attending to the works like soft ground treatment or foundation works.	Provision for the soft ground treatment should be made after carryout the detailed engineering studies, soil testing and designing for the relevant road sections of the Project
(d)	Although the currencies proportion apply for the contract is 65 per cent in US\$ and 35 per cent proportion in Sri Lanka Rupees, the Project had applied 51 times more than 65 per cent proportion in US\$ component, due to scope changes and additional works which were not identified at the stages of contract awarding. As a result, additional cost of US\$ 566,276 equivalent to Rs.72.6 million had been incurred by the Project as at 31 December 2020.	It cannot be stated that the scope changes and additional works are not identified at the contract awarding stage. The scope has been changed purposely due to political reason	Foreign and local proportion of the contractor bills should be clearly agreed by each party and should be included to the condition of the contract.

3.3 Issues on Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
<p>According to the information made available, 1705 plot of lands including 293 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.9,308.22 million had been paid thereon as at 31 December 2019. Further, It was observed that the interest amounting to Rs.1,082.77 million had been paid by the Project as at 31 December 2020, due to delays in settlement of compensation claims. However, the ownership of 423 plots of lands had only been transferred to the Road Development Authority.</p>	<p>There was a delay in paying compensation to the affected people during the entire Project period and the affected people are entitle to an interest payment for the delay of Section 17 payments. It is accepted that there is a delay in transferring the ownership of the acquired land to the RDA or issuing the Section 44 Notice. The action be taken to speed up the process of issuing Section 44 Notice.</p>	<p>Action need to be taken to accelerate the land acquisition activities and register the lands under Section 44 of the Land Acquisition Act.</p>

3.4 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
<p>An amount of Rs.15.85 million for Uswetakeyyawa land and Rs.47.55 million for Mabola land had been incurred to purchase by the Road Development Authority in July 2019 for the resettlement of displaced peoples of the Outer Circular Highway Project in the Muthurajawela. However, both of this lands had not been used by the Project for the resettlement activities even as at 25 February 2021.</p>	<p>As the project is closed down by 31.12.2020, these land lots are not required to the project further.</p>	<p>Land acquisition and resettlement activities of the Project should be properly planned and executed to minimize the loss to the Project.</p>

3.5 Issues Related to the Environmental Matters

Audit Issue	Response of the Management	Auditor's Recommendation
<p>The total number of complaints were 735 and out of that 643 complaints had been resolved by the contractor. Accordingly, 09 complaints had not been resolved as at end of the year 2020.</p>	<p>The total number of complaints received is 735 Nos. Out of those 643 Nos complaints have been resolved.</p>	<p>Action need to be taken to settled all complaints within the validity period of insurance policy of the contractor.</p>