

## **Veyangoda Flyover Project - 2014**

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The audit of financial statements of the Veyangoda Flyover Project for the year ended 31 December 2014 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 Article 1 of Loan Agreement No.2012015/SL dated 13 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Bank of Banco Bilbao Vizcaya Argentaria, S.A (BBVA) Spain.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, then Ministry of Highways, Ports and Shipping, presently the Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to design, supply and construction of the Veyangoda Flyover. As per the Loan Agreement, the estimated total cost of the Project was Rs.2,433 million and out of that Rs.1,814.25 million equivalent to EUR 11.2 million was agreed to be provided by the Bank of Banco Bilbao Vizcaya Argentaria, S.A (BBVA) Spain. The Project commenced its activities on 23 October 2012 and scheduled to be completed by 22 December 2013. The activities of the Project had been completed and taken over by the Road Development Authority on 08 November 2013. However, the financial statement for the year ended 31 December 2014 had been presented 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 Financial Reporting 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 progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Financial Reporting Standards,
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (g) 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 I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Financial Reporting 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 Deficiency**

Cash Flow Statement of the Project for the year under review had not been prepared to segregate and show the cash flows of operating, financing and investing activities clearly.

## **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 2014 are shown below.

| Source       | Amount agreed for financing in the Loan Agreement |             | Allocation made in the Estimate for the year under review | <u>Funds utilized</u>        |                        |             |  |
|--------------|---|-------------|---|------------------------------|------------------------|-------------|--|
|              |   |             |   | during the year under review | as at 31 December 2014 |             |  |
|              | EUR million                                       | Rs. million | Rs. million   | Rs. million                  | EUR million            | Rs. million |  |
| Donor Agency | 11.22   | 1,883.00    | -   | -                            | 11.22                  | 1,883.00    |  |
| GOSL         | 3.28  | 550.00      | 15.80   | 15.73                        | -                      | 78.45       |  |
|              | 14.50   | 2,433.00    | 15.80   | 15.73                        | 11.22                  | 1,961.45    |  |

### 3.2 Physical Progress

The following observations are made.

- (a) The construction of the Flyover scheduled to be completed on 22 December 2013, had been completed and handed over to the Road Development Authority on 08 November 2013.
- (b) It was observed that 45 plots of land acquired upto 31 December 2014, had not been registered at the Land Registry in terms of Section 44 of the Land Acquisition Act. According to the information made available, a sum of Rs.5,336,873 had been paid as interest on delays in payment of compensation for 28 plots of land acquired for the construction of the flyover.

### 3.3 Contract Administration

It was observed that a sum of Rs.7,620,572 had been paid to the contractor as a variation for construction of Compact Quick Bridge across Dee Ela on Medewatta Road. This variation could have been avoided or reduced if the necessity of the Bridge was identified at the designing stage.

### 3.4 Extraneous Activities

It was observed that a sum of Rs. 4,359,185 had been spent by the Project out of the contributions of the Government of Sri Lanka for the opening ceremony of the flyover held on 16 January 2014.