

Colombo -Katunayake Expressway Project - 2014

The audit of financial statements of the Colombo – Katunayake Expressway 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. The Project is implemented under the Loan Agreement dated 06 August 2009 entered into between the Exim Bank of China and the Democratic Socialist Republic of Sri Lanka.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Executing and Implementing Agency of the Project are then Ministry of Ports and Highways, presently the Ministry of Higher Education and Highways and Road Development Authority respectively. The objective of the Colombo – Katunayake Expressway Project is to design and build a toll charging four lane Expressway of 25.8 kilometres with speed of 80 -100 kilometres per hour. The Cabinet of Ministers at its meeting held on 14 August 2008 had granted the approval to divide the construction works of the Expressway into four parts and award the contracts to the China Metallurgical Group Corporation to be implemented as a single Project. Further, the Cabinet of Ministers at its meeting held on 11 September 2008 had granted approval to enter into four contracts with the Exim Bank of China to obtain a Loan of US\$ 248.2 million equivalent to Rs 29,750 million to finance 85 per cent of the initial estimated cost of US\$ 292 million equivalent to Rs.34,722 million for the construction of the Expressway. The activities of the Project were commenced on 18 August 2009 and completed in October 2013. However, the financial statements of the Project 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 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, 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 Public Sector Accounting Standards, and
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

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 Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

According to the financial statements, the balance shown in the Current Account maintained by the Project with the Road Development Authority amounting to Rs.100,532,613 as at 31 December 2014 was not agreed with the balance of Rs.101,523,613 shown in the Current Account maintained by the Road Development Authority with the Project.

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		Allocations made in the Budget Estimated for the year under Review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
Exim Bank	248.2	29,750	-	-	-	248	29,730
GOSL	43.8	4,972	487	-	487	-	12,589
Line Ministry	-	-	-	-	38	-	38
Local Bank Loan	-	5,897	-	-	2,785	-	2,785
Total	<u>292.0</u>	<u>40,619</u>	<u>487</u>	=	<u>3,310</u>	<u>248</u>	<u>45,142</u>

3.2 Physical Progress

The contract for the construction of the Colombo Katunayake Expressway initially awarded at a cost of Rs.9,516 million to a construction company of Republic of Korea in October 2000 and expected to be financed by the Government of Sri Lanka was abandoned in 2003. At the time of termination of the contract, the Road Development Authority had spent a sum of Rs.5,444 million representing 57 per cent of the total value of the contract. Subsequently in 2008, the construction works had been awarded to China Matellurgical Group Corporation to complete the balance works of construction at US\$ 292 million equivalent to Rs. 34,722 million as a turnkey contract. However, the cost of the contraction works had been subsequently increased up to Rs.40,619 million due to several reasons such as changes of the scope of works of construction of a new Kelani Bridge Interchange, Viaduct at Hunupitiya, design changes at Katunayake Entrance, additional works at Kerewalapitiya Interchange, additional 02 entry Toll Stations at Ja Ela, revised sizes of the culverts etc, and price escalations thereon. Eventhough the Cabinet of Ministers had approved on 26 July 2013 to obtain an additional loan from China Exim Bank to finance the additional cost, the Road Development Authority had arranged a loan facility of Rs 5,897 million from a local Commercial Bank. The construction works of the Expressway had been completed and opened for public use on 27 October 2013.

3.3 Contract Administration

The following observations are made.

- It was observed that an additional cost amounting to Rs.256.41 million had been incurred by the Project due to rejection of the contractor to incur additional cost on subsequent increase of rates to supply of sea sand used for the land reclamation purposes.

- (b) A sum of Rs.22.81 million had been paid during the year under review as salaries and vehicle hire charges for 04 Consultants who were not in the approved cadre of the Project. Further, the daily attendance, work assignments, or monthly work done reports were not made available to audit to prove the contribution of the Consultants for the activities of the Project.

3.4 Land Acquisition Activities

The following observations are made.

- (a) According to the Road Construction Plan, 2,583 plots of land were expected to be acquired for the construction of the Expressway. However, 2,571 plots of land had only been acquired up to 31 December 2014. Out of the plots of land acquired as referred to above, 1,251 plots of lands only had been registered at the office of the Land Registry as per Section 44 of the Land Acquisition Act.
- (b) Interest amounting to Rs.380.42 million had been paid by the Project on delays of settling compensation as at 31 December 2014. It was observed that the certain payments of interest had to be made on delays of settling compensation by the Project for over 10 years.
- (c) An advance amounting to Rs. 1.79 million had been paid in 2001 to the Urban Development Authority for the purpose of acquisition of a Land at Meegahawatta in Peliyagoda for resettlement of displaced persons under the Project. However, it was observed that the ownership of the said land had not been transferred to the Road Development Authority from the Urban Development Authority even as at 31 December 2014. This situation had resulted in a delay of transferring ownership to the persons who had been resettled.
- (d) Out of the plots of land to be acquired under Gazette Notification No.1324/19 published on 21 January 2004, action had not been taken to acquire 14 plots of land from Sri Lanka Land Reclamation and Development Corporation for over 10 years, due to disputes with the previous owners of such lands.

3.4 Extraneous Activities

The Project had incurred the sums of Rs.10.79 million and Rs.46.54 million for the activities of opening ceremony of the Colombo-Katunayake Expressway Project during the year 2014 and 2013 respectively. The details on estimation of the expenditure of opening ceremony and approvals had not been submitted to audit..