

Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II - 2018

The audit of the financial statements of the Greater Colombo Urban Transport Development Project (Outer Circular Highway Project) Phase II for the year ended 31 December 2018 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 Agreements No.SL-P 91 and No. SL-P 101 dated 29 July 2008 and 22 March 2011 entered into between the Democratic Socialist Republic of Sri Lanka the Japan International Cooperation Agency. 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 Agreements of the Greater Colombo Urban Transport Development Project Phase II, then Ministry of Highways and Investment Promotion, presently the Ministry of Road and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are 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, thereby of the country. As per the Loan Agreements, the estimated total cost of the Phase II of the Project amounted to Japan Yen 44,097 million equivalent to Rs.55,482 million and out of that Japan Yen 37,406 million equivalent to Rs.46,759 million was agreed to be financed by the Japan International Cooperation Agency. The construction works under the Phase II of the Project had been completed on 18 July 2015. However, the operations of the Project were continued and the financial statements for the year ended 31 December 2018 had been furnished for audit.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for 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 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. Physical Performance

2.1 Physical progress of the activities of the Project

The contract on construction of 8.9 kilometres of the Outer Circular Highway Road from Kaduwela to Kadawatha awarded in November 2011 at a cost of Rs.44.88 billion had been commenced on 09 January 2012 and scheduled to be completed on 08 January 2015.

However, the construction works of the Highway had been completed and handed over to the Road Development Authority on 18 July 2015 with delays in 190 days.

2.2 Payments made out of the Project Objectives

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The commitment fees amounting to Rs.311.60 million had been recovered by the Lending Agency up to 31 December 2018 on the undisbursed amount of Loans.	Additional costs incurred.	Not responded.	Need to be investigate the reasons for delays in utilization of allocations.

2.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The prolongation claim amounting Rs.4.37 billion submitted by the contractor on loss of profits, due to the time extension of the contract had been rejected by the Project under the Section 53.1 of the Condition of Contract and the contractor had referred the issue to the Dispute Adjudication Board. However, the respective dispute had not been resolved even as at 31 July 2019.	Possible overrunning of the cost of the contract.	The contractor had referred the prolongation cost claim to the Dispute Adjudication Board in August 2019. According to the condition of contract, there is no any time limit for the reference of claims to the Dispute Adjudication Board.	Need to take prompt action to settle the case with minimum losses.

2.4 Issues on Acquisition of Land

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Out of 1,442 plots of land including 185 crown lands for the construction of Highway from Kaduwela to Kadawatha scheduled to be acquired, 1,141 plots of land had been acquired and the compensation amounting to Rs.1,458 million had been paid thereon as at 31 December 2018. However, only 667 plots of lands had been registered under Section 44 of the Land Acquisition Act	Possibility to incur addition interest costs on compensation payments.	Not responded.	Action need be taken by the Project to accelerate the process on completion of balance works of the land acquisition.

as at that date. In addition to that, a sum of Rs.299.51 million had been spent as interest on delays in settling compensation payments at the end of the year under review.