

## **Bridge Construction Project Over Kelani River - 2014**

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The audit of financial statements of the New Bridge Construction Project Over Kelani River for the first accounting period from 01 July to 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.SL - PIII dated 28 March 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

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

According to the Loan Agreement of the Project, then the Ministry of Ports, Highways and Shipping, presently Ministry of University Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to mitigate and disperse traffic congestion by constructing a new bridge across the Kelani River as a high mobility link, there by contributing to the improvement of transportation network in Colombo City and promoting economic development. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 35,020 equivalent to Rs.26,230 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 01 July 2014 and scheduled to be completed by 01 July 2023.

### **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 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 judgement, 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, and 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 Accounting Standards, and
- (f) 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 period 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 Accounting Standards.

(b) the funds provided had been utilized for the purposes for which they were provided.

(c) the financial covenants laid down in the Loan had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiency**

The balance of the Current Account with the Road Development Authority of the Project amounting to Rs.16,593,299 had not been agreed with the balance amounting to Rs.15,633,480 shown in the Current Account with the Project of the Road Development Authority.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing of funds, 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.

<b>Source</b>	<b>Amount agreed for financing as per Loan Agreement</b>		<b>Allocations made in the Budget Estimate for the year under review</b>	<b>Funds utilized as at 31 December 2014</b>
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	<b>Japan Yen million</b>	<b>Rs. million</b>	<b>Rs. million</b>	<b>Rs. million</b>
JICA	35,020	26,230	-	-
GOSL	-	8,558	1.6	1.6
RDA Loan	-	-	-	116.0
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	<u>35,020</u>	<u>34,788</u>	<u>1.6</u>	<u>117.6</u>

Out of the total allocation amounting to Rs.359 million in the Budget Estimate for the year under review including Rs.100 million under foreign component, a sum of Rs.357.4 million had been transferred to another Project by the General Treasury. However, the Project had spent Rs.116 million to carry out the activities using proceeds of a loan obtained by the Road Development Authority from a local Bank.

### **3.2 Contract Administration**

The following observations are made.

- a) An overall Project plan for the entire Project at the beginning of the Project and an action plan for the period under review should have been prepared to ensure the achievement of the pre-determined targets in an economical and efficient manner within the specified period of the Project. However, no detailed action plan had been prepared to monitor the activities of the Project during the period under review although the responsibility of the activities of the Line Ministry, Road Development Authority and Project Management Unit were clearly included in the overall Project Plan.
- b) The Project had paid a sum of Rs. 100 million to the Urban Development Authority as an advance to purchase 360 houses at Salamulla Housing Complex for the purpose of resettlement of families affected due to construction works without entering in to a formal agreement.
- c) It was observed that consultancy services for designing and reconstruction of 03 buildings owned to the government institutions which affected by the construction works of the Bridge had been awarded to a local firm at a cost of Rs.42.49 million. However, consultancy services for 01 building had been withdrawn subsequently and 10 per cent of the original agreed cost had also been reduced thereon. The consultancy services for 03 buildings had not been separately determined at the initial stage and as a result, the specific amount for subsequent amendments of the scope of the works could not be identified and reduced.

### **3.3 Matters in Contentious Nature**

The Expression of Interest for consultancy services for designing of the Bridge had been called internationally on 07 February 2014 and 05 bidders were responded thereon. However, 04 bidders had not submitted their financial and technical proposal subsequently, allowing room to the Project to go ahead with a single bidder.

### **3.4 Human Resources Management**

The staff of the Project consisted with 33 staff members as at 31 December 2014 eventhough 33 members for 18 posts had been approved by the Department of Management Services by the Letter dated 29 January 2014. However, the posts of 02 Chief Engineers, 06 Site Engineers/ Technical Officers and 01 Assistant Land Acquisition Officer had remained vacant.