

Reconstruction of Five Bridges in Eastern Province Project - 2014

The audit of financial statements of the Reconstruction of Five Bridges in Eastern Province 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 two Grant Agreements No. 0961400 and No.1060720 dated 19 January 2010 and 25 November 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Co-operation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreements of the Project, then Ministry of Ports and Highways, presently the Ministry of University Education and Highways is the Implementing Agency of the Project. The objective of the Project is to improve the access to the Eastern Province by rehabilitating medium and small size bridges to be improved as 02 lane roads on the national highway which connects the Central Province with the Eastern Province and Panichchankerny causeway in the Eastern Province. As per the Grant Agreements, the estimated total cost of the Project is Japan Yen 1,246 million equivalent to Rs.1,930 million and total amount was agreed to be financed by the Japan International Co-operation Agency. The Project commenced its activities on 09 February 2010 and scheduled to be completed by 30 June 2013. However, the financial statements for the year ended 31 December 2014 had been submitted 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 Generally Accepted Accounting Principles 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 and the Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Grants, etc.
- (d) Whether the withdrawals under the Grants had been made in accordance with the specifications laid down in the Grant Agreements,
- (e) Whether the funds, materials and equipments supplied under the Grants had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (i) Whether the financial covenants laid down in the Grant Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, 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 Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purpose 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 Grant Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Advertising expenses amounting to Rs. 2.36 million spent by the Project during the year under review had been shown in the financial statements under opening ceremony expenses.

2.2.2 Non – Compliance with Laws, Rules and Regulations

The following observations are made.

- (a) The Project had paid income taxes amounting to Rs.29.64 million on behalf of the contractor, out of contribution received from the Government of Sri Lanka contrary to the Article 08 of the Contract Agreement.
- (b) The Pay As You Earn Tax amounting to Rs. 8.22 million had been paid by the Project without recovering from salaries of the Consultant contrary to the provision made in the Inland Revenue Act, No. 38 of 2000 and Public Finance Circular No. PF/PE/06 dated 31 January 2000.

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 Grant Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized during the year under review as at 31 December 2014			
	Japan Yen million	Rs. million	Rs. million	Japan Yen million	Rs. million	Japan Yen million	Rs. million
JICA	1,246	1,930	-	-	-	1,433.4	1,612.5
GOSL	-	-	2.064	1.835	2.064	235.8	265.2
	1,246	1,930	2.064	1.835	2.064	1,669.2	1,877.7

3.2 Physical Progress

According to the progress reports, reconstruction works of 05 Bridges on Kandy–Mahiyangana – Padiyatalawa Road had been completed in June 2013 and defect liability period of the reconstruction works was also completed in June 2014. However, the Project Completion Report had not been furnished even as at 31 August 2015.

3.3 Contract Administration

The following matters were observed in this regard.

- Even though Japan Yen 35.94 million equivalent to Rs.44.92 million had been paid to the contractor to demolish Panichenkerny Bridge, material recovered from the demolished Bridge had not been handed over to the Road Development Authority. The Secretary of then Ministry of Highways, Ports and Shipping had explained on 05 August 2014 that materials had been disposed as those were remained in unusable condition. However, the list of material disposed or prior approval thereon had not been made available for audit.
- It was observed in audit that structures and materials of a Baily Bridge with the length of 80 metres used by the contractor as a temporary bridge at the

construction site at Panichenkerny had not been handed over either to the Project or Road Development Authority after completion of the bridge construction works.

3.4 Fund utilized outside the Project purposes

Hotel charges and advertisement expenses aggregating Rs. 12.74 million spent by the Project out of the contribution of the Government of Sri Lanka was not directly related to the activities of the Project.

3.5 Unsettled Audit Issues Highlighted in the Previous Audit

Overpayments of Value Added Taxes aggregating Rs.534,617 made in 2013 to the Commissioner General of Inland Revenue due to application of incorrect exchange rates had not been recovered even as at 31 December 2014.