

Project for Reconstruction of Five Bridges in Eastern Province - 2013

The audit of financial statements of the Project for Reconstruction of Five Bridges in the Eastern Province for the year ended 31 December 2013 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 respectively entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Co-operation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreements of the Project for Reconstruction of Five Bridges in the Eastern Province, the Ministry of Ports 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 two lane roads on National Highway No. 5, which connects the Central Province with the Eastern Province and Panichchankerny causeway and a bridge in the Eastern Province. According to the Grant Agreements, the estimated total cost of the project is Rs.1,930 million and it was agreed to be financed by the Japan International Co-operation Agency (JICA). The Project commenced its activities on 09 February 2010 and was scheduled to be completed by 30 June 2013. However, activities of the Project had been carried out up to 31 December 2013.

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. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have

obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore, believe that my audit provides a reasonable basis for my opinion. The examination included such tests of systems and controls transactions, assets, liabilities and accounting records 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 the Project Management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of purchases made out of the Grant, etc,
- (c) Whether withdrawals under the Grant had been made in accordance with the specification laid down in the Grant Agreements,
- (d) Whether funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting principles,
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether financial covenants laid down in the Grant Agreements had been complied with.

3. **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 5 of this report. I am of opinion that,

- (a) The Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (b) The funds provided had been utilized for the purpose for which they were provided,
- (c) 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 Agreement had been complied with.

4. **Financial Statements**

4.1 **Financial Performance**

According to the financial statements and information made available for audit, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 252,059,716 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 1,876,991,768. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

Components	Expenditure for the year ended		Cumulative Expenditure
	31 December		
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	2013	2012	
	Rs.	Rs.	Rs.
Work- in -Progress	214,440,234	952,534,767	1,700,313,108
Consultancy Service	<u>37,619,482</u>	<u>73,844,344</u>	<u>176,678,660</u>
Total	<u>252,059,716</u>	<u>1,026,379,111</u>	<u>1,876,991,768</u>

5. **Audit Observations**

The following observations are made.

- (a) Even though the construction of all five bridges had been completed and handed over to the Road Development Authority before 07 June 2013, sums aggregating Rs.1,700,313,108 spent for construction of those bridges had been shown in the financial statements as at 31 December 2013 as work- in- progress.
- (b) The Project Management Unit had monitored several projects such as Project for Reconstruction of Five Bridges, Pro-poor Eastern Infrastructure Development Project, Construction of Manmunai Bridge Project, Kuwait Funded Project and Road Network Improvement Project in a particular period. However, only one Cash Book had been maintained for recording transactions relating to all the projects monitored by the Project Monitoring Unit. As a result, it was unable to identify the total funds received for each project and expenditure incurred thereon.

- (c) Even though the Project had constructed five bridges at different locations, separate records had not been maintained for each bridge. As a result, it was unable to identify the total cost incurred for each bridge.

6. Operating Review

6.1 Contract Administration

Materials removed from old Panichenkerny Bridge which was demolished by the Contractor, had not been handed over to the Road Development Authority .Further, the detour built in order to construct the above Bridge at a cost of Rs. 155,636,000 and removed subsequently. However, materials removed from the detour had not been handed over by the contractor to the Road Development Authority .

6.2 Extraneous Expenses

The following observations are made.

- (a) It was observed that the Value Added Tax on payment made to the Contractors in Japanese Yen had been computed based on incorrect exchange rates to translate such payments to Sri Lanka Rupees. Therefore, a sum of Rs. 534,617 had been over paid by the Project as the Value Added Tax.
- (b) According to the Letter No.13/959 dated 29 August 2011 of the Deputy Commissioner of International Unit of the Department of Inland Revenue the income tax on profit earned by the Contractor from the Project should be recovered by the Project. However, the income tax amounting to Rs.29,636,393 had been paid by the Project on behalf of a Contractor out of the funds of the Project and no action had been taken to recover it from the Contractor.
- (c) According to the Inland Revenue Act, No. 38 of 2000 and the Public Finance Circular No.PF/PE/06 dated 31 January 2000, Pay As You Earn Tax should be borne by the employees. However, the Project had paid Pay As You Earn Tax amounting to Rs. 8,225,881 on remuneration of the Consultant and action had not been taken to recover it from the Consultant.