

## **Kuwait Funded Bridges Reconstruction and Rehabilitation Project - 2014**

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The audit of financial statements of the Kuwait Funded Bridges Reconstruction and Rehabilitation 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 Loan Agreements No. 466 and No.627 dated 27 March 1995 and 03 September 2001 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development.

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

According to the Loan Agreements of the Project, the Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to support the national economy of Sri Lanka by reducing transport cost of agricultural and industrial products and reducing travel time between the country's regions and the capital. The Project also aims at improving road safety through the rehabilitation, reconstruction or replacement of narrow and weak 32 bridges and the widening of the Gatembe-Gannoruwa Road. As per the Loan Agreements, the estimated total cost of the Project was Kuwait Dinnar 10.12 million equivalent to Rs.3,432 million and out of that Kuwait Dinnar 5.10 million equivalent to Rs.1,728.2 million was agreed to be provided by the Kuwait Fund for Arab Economic Development. The Project commenced its activities on 27 March 1995 and scheduled to be completed within 33 months by 31 December 1997. This period had been extended by another 13 years in 7 instances up to 31 December 2014.

### **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 the 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 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 the purchases made out of the Loan etc,
- d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements,
- e) Whether the funds, materials and equipment supplied under the Loan 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 Sri Lanka Public Sector Accounting Standards,

- 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 Loan Agreements 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 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,
- (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 Loan Agreements had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiency**

The government contribution received to the Project shown in the financial statements amounted to Rs.10,600,000 whereas corresponding figure shown in the Appropriation Account for 2014 of the Ministry of Highways and Investment Promotion was Rs.10,507,508.

## **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		Allocation made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	KD million	Rs. million		Rs. million	during the year under review		as at 31 December 2014
				KD million	Rs. million	KD million	Rs. million
KFAED	5.10	1,728	37.50	0.081	37.44	3.60	1,623.75
GOSL	-	1,704	10.60	-	10.50	-	1,669.31
	<u>5.10</u>	<u>3,432</u>	<u>48.10</u>	<u>0.081</u>	<u>47.94</u>	<u>3.60</u>	<u>3,293.06</u>

### 3.2 Physical Progress

It was observed that construction works of 32 bridges and widening of Gatembe-Gannoruwa Road had been completed during the year under review. However, other 03 bridges of Galle-Deniyaya-Madampe Road scheduled to be completed in December 2014 had been completed with delays due to shifting of equipments for over 02 months.

### 3.3 Contract Administration

It was observed that the value of bids submitted by the selected contractors under 04 items on construction of 03 bridges of Galle-Deniyaya-Madampe Road was higher than the Engineer's Estimate ranging from 52.29 per cent to 162.75 per cent. As a result, the cost of the construction of such bridges had been increased by Rs.4.45 million.