

Reconstruction of 25 Bridges Project - 2014

The audit of financial statements of the Reconstruction of 25 Bridges 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 Article 1 of the Loan Agreement No 886 dated 30 January 2014 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 Agreement of the Project, then Ministry of Highways, Ports and Shipping presently, Ministry of University Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to reconstruct 25 bridges with two lanes with pedestrian shoulders in the 07 Provinces. The Project is expected to meet the increasing demand for the transport of passengers and goods and to contribute to the economic and social development of the respective areas by reducing the vehicle operation and road maintenance cost, travel time, and road accidents. The estimated total cost of the Project is Kuwait Dinar 10 million equivalent to Rs.4,632 million. The Kuwait Fund for Arab Economic Development had agreed to finance the cost entirely. The Project commenced its activities on 30 January 2014 and scheduled to be completed by 31 December 2018.

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 Lending Agency, the progress of the Project in financial and physical terms, 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 Generally Accepted Accounting Principles.
- (f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (g) 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 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 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 Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) It was observed that the cash inflows and outflows made during the year under review had not been properly segregated and shown under operating, investing and financing activities.
- (b) Salaries paid amounting to Rs.336,416 had been debited directly to Imprest Fund Account instead of salary account.
- (c) Indirect overhead expenses amounting to Rs.791,922 related to the activities of other Projects had been charged to this Project.

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 as per Loan Agreement		Allocations made in the Budget Estimated for the year under review	<u>Funds utilized</u>	
				during the year 2014	as at 31 December 2014
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	Kuwait Dinar million	Rs. million	Rs. million	Rs. million	Rs. million
KFAED	10	4.632	-	-	-
GOSL	-	-	4	4.858	7.796
Total	<u>10</u>	<u>4.632</u>	<u>4</u>	<u>4.858</u>	<u>7.796</u>
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3.2 Physical Progress

The following observations are made.

- According to the information received, 65 plots of land were expected to be acquired by the Project from three Divisional Secretariats. However, the Project had not taken steps to acquire any plot of land as at 31 December 2014.
- Although overall procurement plan had been prepared by the Project for the main activities such as selecting of the contractor and consultant, the actual progress was far behind as planned. It was observed that the contract under the Package-01 scheduled to be awarded on 23 September 2014 had been awarded on 26 March 2015 with delays of 184 days. The consultancy contract had also been awarded with delays of 369 days and the agreement of the consultancy services had been extended up to 04 August 2020.
- Even though the financing arrangement of the Loan was effective from 29 April 2014, the Loan proceeds had not been used even as at 20 July 2015. Therefore, the possibility of the utilization of entire proceeds of the Loan during the rest of period of the Project was doubtful.

3.4 Matters in Contentious Nature

It was observed that location of 08 bridges included in the original proposal approved by the Department of National Planning on 01 January 2012 had been altered at the time of signing of Loan Agreement on 30 January 2014. However, the changes of the original proposal had not been approved by the Department of National Planning.