

Regional Bridge Project II using British Government Financial Assistance (UK Steel Bridges Project) - 2014

The audit of financial statements of the Regional Bridge Project using British Government Financial Assistance (UK Steel 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. This Project is implemented under the Loan Agreement No.53 M/FC/ 1448 (201327/SL) dated 21 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the HongKong and Shanghai Banking Corporation Public Limited Company for construction of Steel Bridges on National Highways.

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 objective of the Project is to enhance and strengthen the road infrastructure by;

- (a) designing, surveying and supplying of 104 rural bridges,
- (b) contribution to local services and local materials.
- (c) providing UK technical assistance and training for over 4 years.

Subsequently, 104 bridges had been substituted by 88 bridges by the Contract Clarification No. 4 dated 19 August 2014. According to the Loan Agreement, the contract for the supply and installation of the bridges had been awarded on lump-sum - basis to a contractor in the United Kingdom on 26 April 2012 at a cost of Sterling Pounds 45 million equivalent to Rs.9,778.05 million and the contractor was required to design and provide the necessary technical assistance to install the bridges. The Project had commenced its activities on 19 September 2013 and scheduled to be completed within 4 years by 18 September 2017.

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 Financial Reporting 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 Responsibility of the Auditor

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 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,
- (d) Whether the funds, materials and equipment supplied under the Loan 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 Sri Lanka Financial Reporting Standards,

- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) 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 Sri Lanka Financial Reporting Standards.
- (b) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (c) the financial covenants laid down in the Loan Agreement had been complied with,

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 Estimate for the year under review	Funds utilized during the year under review as at 31 December 2014	
	UK£ million	Rs. million		Rs. million	Rs. million
Donor Agency	45.00	9,778.05	4,626.00	4,625.98	6,125.98
GOSL	-	2,500.00	500.00	171.38	289.58
RDA Loan	-	-	-	327.00	327.00
	45.00	12,778.05	5,126.00	5,124.36	6,742.56

In addition to the proceeds amounting Rs.171.38 million received during the year under review from the General Treasury, the proceeds amounting Rs.327 million from a Loan obtained by the Road Development Authority from a local Commercial Bank had also been utilized by the Project. However, details of the repayment of the Loan had not been explained for audit.

3.2 Physical Progress

The physical progress of the activities of the Project for the year ended 31 December 2014 are as follows.

Category of Bridges	Bridges proposed to be constructed as at 31 December 2014	No. of Bridges constructed as at 31 December 2014		
		Permanent	Temporary	Work in progress
	Nos.	Nos.	Nos.	Nos.
Composite Bridges	1	1	0	0
Quick Bridges	5	1	0	4
C-200 Bridges	14	3	8	3
Delta Bridges	1	0	0	1
Atlas Bridges	5	1	0	4
Total	<u>26</u>	<u>6</u>	<u>8</u>	<u>12</u>

3.3 Contract Administration

The following observations are made.

- (a) It was observed that, the initial contract agreement signed between Line Ministry and the contractor had been altered in 4 instances through contract clarifications. Therefore, total number of bridges as per the original contract was 104 and it was reduced up to 88 bridges. However, out of 04 changes made to the initial contract agreement only 01 change had been approved by the Cabinet of Ministers.
- (b) The frequent changes in the initial scope of works of the contract indicated that the Project Monitoring Unit had failed to identify the exact locations, length, width and priorities of the construction of bridges and the initial plans thereon had been altered.