

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2015

The audit of financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) for the year ended 31 December 2015 was carried out under my direction in pursuance of provision in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented under a Loan Agreement No.SL-P 108 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highways presently, the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the National Road Network by constructing major bridges on the National Roads, there by contributing to economic development. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 16,132 million equivalent to Rs.27,250 million and out of that Japan Yen 12,381 million equivalent to Rs.20,914 million was agreed to be provided by the Japan International Corporation Agency. The Project commenced its activities on March 2013 and scheduled to be completed by July 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 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 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 identifications 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 Agreement.
- (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 Agreement 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) 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) Work- in - Progress valued at Rs. 2,637.66 million shown in the Statement of Financial Position as at 31 December 2015 includes the balances of sundry advance, net balance of receivables from other donor funded projects and prepayments etc aggregating Rs 1,113.15 million.
- (b) It was observed that the Statement of Cash flow had not been prepared realistically and the cash inflows and outflows on contribution received from the Government of Sri Lanka, payments for the consultants etc, had not been agreed with the changes of the respective cumulative balances shown in the Statement of Financial Position as at 31 December 2015.

2.2.2 Un-reconciled Balances

It was observed that the balances receivable from and payable to other donor funded projects as at 31 December 2015 had not been reconciled in timely manner. The differences of the balances observed during the course of audit are given below.

Name of the other donor funded project	Balance as at 31 December 2015		Difference
	as per financial statements	as per records of the other donor funded project	
	Rs. million	Rs. million	Rs. million
Reconstruction of 25 Bridges Project	1.42	0.67	0.75
Intelligence Transport System Project	18.65	2.09	16.56
Pro-poor Eastern Infrastructure Development Project	3.01	Nil	3.01
Construction of Manmunai Bridge Project	5.64	Nil	5.64

2.2.3 Non – Compliance with Laws, Rules and Regulations

A sum of Rs. 1.53 million had been remitted by the Project to the Road Development Authority as overhead charges, contrary to the instructions made in paragraph 8.3.9 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises of the General Treasury.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary allocation for the year under review and the utilization of funds during the year under review and up to 31 December 2015 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			
	JPY million	Rs. million		during the year 2015		up to 31 December 2015	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	12,381	20,914	3,000.00	1,754.77	2,098.71	1,944.70	2,325.86
GOSL	3,751	6,336	55.12	45.97	54.98	90.67	108.44
	<u>16,132</u>	<u>27,250</u>	<u>3,055.12</u>	<u>1,800.74</u>	<u>2,153.69</u>	<u>2,035.37</u>	<u>2,434.30</u>

In addition to the above mentioned funding arrangements, the proceeds of a Loan of Rs.85 million obtained by the Road Development Authority had also been allocated for the Project. The details of utilization of the proceeds of the Loan as at 31 December 2015 and repayment arrangements etc had not been explained for audit.

3.2 Physical Progress

According to the progress reports of the Project, the reconstruction works of 10 major bridges in Galle and Matara Districts in the Southern Province under Package-I of the Project had been commenced on 20 March 2015. The reconstruction works of other 08 major bridges in the Northern Province under the Package-II of the Project had not been commenced even as at 31 December 2015 eventhough the preparation of detailed designs of the respective bridges had been completed during the year under review. Further, the reconstruction works of other major bridges under the Packages III and IV had remained in the initial designing stages.

3.3 Contract Administration

As mentioned in the above, the reconstruction works of 10 major bridges in the Galle and Matara Districts under the Package-I of the Project had been commenced during the year under review and the following observations are made thereon.

- (a) It was observed that 25 variation orders valued at Rs.532.77 million under the Package-I of the Project had been issued during the year under review. However, prior approvals for the variations of the scope of the works had not been obtained from the responsible parties as required by paragraph 8.13.3 of Procurement Guidelines. Out of that, a sum of Rs. 20.25 million had been settled as at 31 December 2015.
- (b) It was observed that the reconstruction works of several major bridges shown in the original plan had been removed by the Project subsequently and other bridges which were not included in the original plan had been included. Therefore, Halpatota bridge which was included in the original plan of the reconstruction of bridges in Galle District had been removed and Wellamadama bridge in Matara District which was not included in the original plan had been included.
- (c) The designs of the pile foundation of the Kihimbiela bridge in Galle District had been changed and additional cost of Rs. 22.35 million had been spent thereon due to ground surveys done mistaken at the initial stage.

3.4 Lands Acquisition and Resettlement Activities of the Project

According to the Action Plan of the Project, the process of the land acquisition under the Package –I of the Project was required to be completed before 20 March 2015. It was observed that the Project had targeted to acquire 242 plots of land situated in 05 Divisional Secretariat Divisions and out of that 233 plots of land had been acquired. The compensation amounting to Rs. 3.09 million had been paid as at 31 December 2015 for 137 plots of land. Further, the ownership of any plots of land had not been transferred to the respective District Secretaries under the Section 44 of the Land Acquisition Act.

3.5 Matters in Contentious Nature

The Commitment charges amounting to Rs.13.39 million had been recovered by the Lending Agency on the undisbursed balance of the Loan due to delay in implementation of the Project.

3.6 Human Resources Management

The Staff of the Project had comprised with 31 members at the end of the year under review even though 62 career positions had been approved by the Department of Management Services and 41 vacancies for the posts including key posts of 02 Chief Engineers, 07 Project Engineers, 09 Technical Officers were remained unfilled at the end of the year under review. Further, 15 employees including 04 Consultants, 03 Public Liaison Officers, 03 Light Equipment Operators had been deployed for the positions which were not approved by the Department of Management Services.