

New Bridge Construction Project over the Kelani River - 2015

The audit of financial statements of the New Bridge Construction Project over the Kelani River for the year ended 31 December 2015 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 01 of Loan Agreement No. SLP-III dated 28 March 2014 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 the Ministry of Ports, Highways and Shipping, 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 mitigate and disperse traffic congestion by constructing a new Bridge across the Kelani River as a high mobility link, there by contributing to the improvement of transportation network in Colombo City and promoting economic development. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 46,446 million equivalent to Rs 34,788 million and out of that Japan Yen 35,020 million equivalent to Rs.26,230 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 01 July 2014 and scheduled to be completed by 01 July 2023.

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 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 Agreement.
- (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 Public Sector Accounting 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 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 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 accounting deficiencies are observed in audit.

- (a) Office rent amounting to Rs.240,000 payable as at 31 December 2015 had not been brought to accounts. As a result, the balance shown under the work-in-progress and current liabilities in the Statement of Financial Position had been understated by the same amount.
- (b) A sum of Rs.82,649 had been shown in the financial statements as payable to the Road Development Authority. However, according to the financial statements of the Road Development Authority, there was no balance receivable from the 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 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year under review		as at 31 December 2015	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	35,020	26,230	1,728	899.56	1,033.10	899.56	1,033.10
GOSL	11,426	8,558	459	376.17	458.93	377.48	460.53
Total	<u>46,446</u>	<u>34,788</u>	<u>2,187</u>	<u>1,275.73</u>	<u>1,492.03</u>	<u>1,277.04</u>	<u>1,493.63</u>

3.2 Physical Progress

According to the information received, detailed designs of the Bridge, electricity transmission line and other buildings expected to be constructed by the Project had been completed as at 31 December 2015. However, the commencement of the construction works had shown slow progress due to various reasons described below.

- (a) According to the implementation plans of the Project, the overhead high tension transmission lines of 220 Kilovolts and 132 Kilovolts are expected to be converted to underground cables as enable to provide the required road clearance. The estimated cost of Rs.1,240.88 million thereon is expected be shared by the Road Development Authority and the Ceylon Electricity Board. However, bidding process on selection of a contractor for the said works was not completed by the Ceylon Electricity Board even as at 31 December 2015. Further, works such as relocation of 02 substations, 06 feeder pillars, 02 mini feeder pillars, relaying underground high tension power cable along the new road reservation boundary, shifting of medium low voltage overhead cables for two line

segments and relocation of medium low voltage overhead cables across the Kelani River etc had remained at the preliminary stages as at 31 December 2015.

- (b) The construction works of the officers' quarters of Road Development Authority in a land at Kotikawatha was not initiated even as at 31 December 2015, due to a dispute on transferring of the legal ownership of the said land. However, a sum of Rs. 190,210 had been paid by the Project to a private party on 29 December 2015 for soil investigation purposes.
- (c) Construction works of buildings for the Sri Lanka Atomic Energy Board at Halbarawa commenced on 19 March 2015 and expected to be completed on 15 July 2016 had been abandoned due to public protests. According to the reports of the Central Environmental Authority, it was confirmed that there are no adverse effects on the environmental matters on shifting of building to new location. However, the adequate action had not been taken by the Executing Agency to educate the people in the area and take remedial action to control the public protests. It was observed that contract for construction of the building had been awarded at an estimated cost of Rs.419.07 million on 09 March 2015 and out of that, a sum of Rs.34.72 million had been released to the contractor during the year under review.

3.3 Contract Administration

According to the paragraph No. 14.2 of the Condition of the Contract, the accepted contract amount should be calculated excluding the allocations for the provisional sums, day works and provision for the physical and price contingencies etc included in the Bill of Quantity. However, the mobilization advance amounting to Rs.291.24 million had been calculated and paid by the Project for contracts for the construction of buildings for the Sri Lanka Atomic Energy Board and Automobile Engineering Training Institute including the provisional sums, physical and price contingencies aggregating Rs.157.88 million. As a result, a sum of Rs.24.56 million had been overpaid to the contractors as mobilization advances.

3.4 Issues Related to Human Resources Management

It was observed that the key positions of the Project Monitoring Unit including Chief Engineer, Site Engineer, Technical Officers, Project Accountant, Land Acquisition Officer, Assistant Land Acquisition Officer, Procurement Specialist, Quantity Surveyors and Administration officer had remained vacant for over 02 years as at 31 December 2015 and it was badly influenced for the smooth operations of the activities of the Project.

3.5 Issues on Financial Controls

The Board of Surveys on fixed assets procured by the Project had not been carried out for the year under review, as required by the Financial Regulation No. 756.