

Reconstruction of 46 Bridges under the Miscellaneous Foreign Aided Project – 2015

The audit of financial statements of the Reconstruction of 46 Bridges under the Miscellaneous Foreign Aided Project 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. This Project was implemented under the Loan Agreement No.B92 0A1 dated 05 November 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the NATIXIS Bank of France.

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 the Ministry of Higher Education and Highways was the Executing Agency and Road Development Authority was the Implementing Agency of the Project. The objective of the Project was to supply and construction of 46 steel bridges in Sri Lanka. According to the Loan Agreement, the estimated total cost of the Project amounted to Euro 45.80 million equivalent to Rs.7,564 million and out of that Euro 22.05 million equivalent to Rs.3,642 million was agreed to be provided by NATIXIS Bank of France. The Project commenced its activities on 17 July 2013 and scheduled to be completed by 17 July 2015. However, the activities of the Project had been continued up to 31 December 2015.

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 accounting deficiencies were observed.

- (a) A special Loan amounting to Rs. 471.71 million obtained from a Licensed Commercial Bank through the Road Development Authority had been shown as a current liability in the Statement of Financial Position. The mechanism agreed by the Project for the repayment of the Loan had not been explained for audit.
- (b) The amounts payable to the contractors at the end of the year under review had been calculated erroneously. As a result, a sum of Rs. 20.88 million payable to the contractors who engaged on reconstruction of 06 bridges had been overstated. Further, the balances aggregating Rs.83.29 million payable to other contractors engaged on reconstruction works of 09 bridges and retention money aggregating Rs. 13.66 million payable as at 31 December 2015 had not been brought to account.
- (c) The balances of the mobilization advance aggregating Rs. 174.83 million had been overstated by Rs. 37.39 million due to erroneous accounting treatments made on the amounts recovered.
- (d) Furniture and equipment valued at Rs.1.32 million purchased through the contractors during the period of the Project had not been recognized as the fixed assets of 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 according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the under review		up to 31 December 2015	
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	Euro million	Rs. million	Rs. million	Euro million	Rs. million	Euro million	Rs. million
NATIXIS Bank of France	22.05	3,642	725	4.50	719	22.39	3,551
GOSL	23.75	3,922	1,049	6.88	1,050	10.82	1,700
	<u>45.80</u>	<u>7,564</u>	<u>1,774</u>	<u>11.38</u>	<u>1,769</u>	<u>33.21</u>	<u>5,251</u>

3.2 Physical Progress

Eventhough the Project had initially planned to reconstruct 46 bridges, a contract had been awarded to a foreign company on 12 December 2012 to supply of the components for 50 bridges at a cost of Euro 22.05 million equivalent to Rs. 3,642 million. According to the Clause 17 of the contract agreement, components of the bridges along with all utility equipment were required to be supplied within 730 days. Therefore, supply of the components for all bridges had been completed during the year under review and out of that, the reconstruction works of 31 bridges had only been completed as at 31 December 2015. The reconstruction works of 19 bridges had not been completed as at 31 December 2015, due to delays of awarding of contracts.

3.3 Contract Administration

The following observations were made.

- (a) According to the guidelines issued by the Construction Industry Development Authority of Sri Lanka, the Interim Payment Certificates are required to be verified and certified by the Engineers of the Project within 21 days of submission of the claims and payments thereon should be settled within next 14 days. However, part payment of Rs.96 million related to the reconstruction of 09 bridges had been made during the year under review without being verified and certified by the Engineers of the Project.
- (b) It was observed the extensions of time for the reconstruction works of the bridge No 12/3 of Katukurunda- Nebada Road had been granted only for 14 days until 01 July 2014 eventhough the reconstruction works were completed on 05 December 2014. However, the final payments of Rs. 12.03 million had been settled without recovering of liquidated damages of Rs. 1.14 million. Further, the liquidated damages had not been determined and charged to the contractors engaged for the reconstruction works of the bridge No10/1 of Makola- Udupila Road and the bridge No.5/4 of Ingiriya-Halwatura- Egaloya Road which completed with delays of 36 days and 56 days respectively.

- (c) According to the Public Finance Circular No.2/2012 of 07 August 2012, estimates for all procurements should be made by considering all the matters to ensure the accuracy of the total cost of the procurements. However, variations at a cost of Rs. 64.33 million had been made to the originally estimated works of Rs. 102.65 million of the reconstruction works of 09 bridges as a result of scope changes and poor designing of bridge reconstruction.
- (d) The site visits made by the Auditors on 15 February 2016 had revealed that cover slab of the foot path of the bridge No. 33/1 on Wandurambe -Ethimale -Yakkatuwa Road had been cracked and the galvanized bars of the bridge were not properly fixed. Further, reconstruction works of the bridge No.1/1 of Station Road at Badulla had been suspended due to the issues on environmental matters.
- (e) According to the Annex iv (g) of the contract agreement, the technical assistance for the reconstruction and maintenance purposes is required to be provided by the supplier and therefore, 15 Engineers were expected to be trained. However, only 03 Engineers of the Road Development Authority had been provided trainings in abroad during the period of the Project. It was observed in audit that the shortage of staff with adequate technical knowledge would be affected for the future maintenance works of the reconstructed bridges.

3.4 Matters in Contentious Nature

The following observations are made.

- (a) Although several Donor Funded Projects are implemented by the Miscellaneous Foreign Aid Project Management Unit of the Road Development Authority, a sum of Rs.2.17 million incurred during the year under review on electricity, building rent, newspapers and telephone etc, had been charged to the Project as project management expenses without being proportionately distributed to the other Projects.
- (b) It was observed in audit that an allowance for a Technical Officers had been calculated erroneously and a sum of Rs.161,000 had been over paid thereon.

3.5 Human Resources Management

It was observed that the staff of the Project had comprised with 18 officers at the end of the year under review eventhough 33 carder positions were approved by the Department of Management Services. The key posts of the Project comprised with 06 Engineers and 05 Technical Officers had remained vacant over 03 years as at 31 December 2015. However, 03 officers had been deployed by the Project for the posts of Consultant, Light Equipment Operator and Computer Hardware Technician which were not included in the approved cadre.

3.6 Issues on Financial Controls

The following observations are made.

- (a) The encashment medical leaves amounting to Rs.95,698 and bonus payment of Rs.101,250 for the officers of the Road Development Authority attached to the Project Monitoring Unit had been reimbursed to the Road Development Authority

contrary to the Section 5.4 of Department of Management Services Circular No. 33 dated 05 April 2007.

- (b) Furniture and equipment valued at Rs.2.24 million which were purchased through Interim Payment Certificates had not been verified through the annual Board of Survey, as required by the Financial Regulation No 756.
- (c) Salary and the motor vehicle hiring charges aggregating Rs.293,393 had been paid by the Project to a Consultant and Public Liaison Officer who were deployed by the other Donor Funded Project.

3.7 Closure of the Activities of the Project

The furniture and equipment procured at a cost of Rs. 2.27 million through the contractors engaged for the reconstruction works of 17 bridges had not been handed over to the Road Development Authority even though the reconstruction works of such bridges were completed as at 31 December 2015.