

## **Reconstruction of 25 Bridges Project - 2016**

---

The audit of financial statements of the Reconstruction of 25 Bridges Project for the year ended 31 December 2016 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 (KFAED).

### **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 Higher 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 Western, Sabaragamuwa, Eastern, Southern, North Western, Central, Northern Provinces to meet the increasing demand for the transport of passengers and goods and contribute to the economic and social development of the respective areas by reducing the vehicle operations and road maintenance cost, travel time and accidents. The estimated total cost of the Project is amounted to 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 Sri Lanka Public Sector Accounting Standard 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 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 Sri Lanka Public Sector Accounting Standard.
- (f) Whether the 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 opening and closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,

- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) 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) The cash flow statement of the Project for the year under review had not been prepared in proper manner. As a result, cash out flows shown under investing and operating activities had been understated by Rs.73 million whilst the cash inflows shown under financing activities had been understated by Rs.75.58 million.
- (b) The Project had not taken action to recognize the cost of the 08 bridges separately in the financial statements. Instead, the total cost of bridges amounting to Rs.241.63 million had been shown under the work- in- progress in the financial statements for the year ended 31 December 2016.

## 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 2016 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			
	Kuwait Dinar million	Rs. million		Rs. million	during the year under review		as at 31 December 2016
	Kuwait Dinar million	Rs. million	Rs. million	Kuwait Dinar million	Rs. million	Kuwait Dinar million	Rs. million
KFAED	10	4,632	625	0.45	218.76	0.57	277.99
GOSL	-	-	45	0.02	11.10	0.05	24.75
<b>Total</b>	<b><u>10</u></b>	<b><u>4,632</u></b>	<b><u>670</u></b>	<b><u>0.47</u></b>	<b><u>229.86</u></b>	<b><u>0.62</u></b>	<b><u>302.74</u></b>

### **3.2 Physical Progress**

---

According to the Project Document, it was scheduled to award contracts for reconstruction of 25 bridges under 03 packages and out of that the contracts for reconstruction of 08 bridges under the Package-01 had been awarded on 07 September 2015 at a cost of Rs.987 million to a local construction company with foreign collaboration. However, the reconstruction works of the bridge No.1/1 of the Kaduwela – Biyagama Road had been abandoned due to failures of the contractor and the reconstruction works of the bridges No.2/2 and 2/3 of Tangalle – Weeraketiya Road had not been commenced due to design changes. The physical progress of reconstruction works of other bridges had remained below 35 per cents. The contracts under other 02 packages had not been awarded even as at 31 December 2016.

### **3.3 Contract Administration**

-----

The following observations are made.

- (a) The consultancy contract entered into with the foreign Consultant on 13 January 2015 had been terminated by the Project with effect from 22 August 2016, as per clause 2.9.1 of the general conditions of the consultancy agreement and as a result, service of a Material Engineer, a Quantity Surveyor and Site Engineers for consultancy purposes had not been received for the civil construction works.
- (b) The Chairman of the Road Development Authority had appointed Project Director as the Project Engineer by his letter No. RDA/SPMU/KFAED/KDEB/VOL.3 of 09 September 2016 with immediate effect. Therefore, the duties assigned to the Project Engineers and the Consultant under the Project had been carried out by the Project Director himself without being segregated.
- (c) The contractor for the construction of the bridges had been selected based on the capacity to use financial and technical resource with collaboration of a foreign construction firm and both local and foreign firms shall be jointly and severally liable for the construction, completion and maintenance of the contract. However, it was revealed in audit there were no involvement of the foreign partner for construction works carried out under the contract for Package -01. According to the letter of RDA/SPMU/KFAED/Gen/Vol.04 of 06 October 2017, the Road Development Authority had taken action to seek the legal action on failures on completion of the works.
- (d) The mobilization advances for the bridge construction works amounting to Rs.98.71 million had been released by the Project in 02 instances in November 2015 and July 2016. According to the provisions of the contract agreement, the recovery of mobilization advance is required to be commenced after reaching 30 per cent of the value of work done. However, the recovery process under the Contract Package-01 had not been commenced even as at 31 December 2016.

### **3.4 Matters in Contentious Nature**

-----

According to the detailed Bill of Quantity of the bridge No.1/1 of Kaduwela- Biyagama Road, a sum of Rs.5.00 million had been allocated to construct cofferdam at the construction site. However, a temporary jetty had been constructed by the contractor instead of being constructed a cofferdam at a cost of Rs.24.43 million, without obtaining approvals from respective parties.

### **3.5 Issues Related to Human Resources Management**

-----

The following observations are made.

- (a) The key posts such as 01 Deputy Project Director, 03 Chief Engineers, 06 Project Engineers and 09 Technical officers were remained vacant for over 02 years as at 31 December 2016, eventhough the Project Director had sought permission to recruit by his letter of 20 October 2016 addressed to the Secretary of the Line Ministry.
- (b) It was observed that 03 Consultants and 02 Public Liaison Officers had been recruited by the Project in December 2015 and January 2016 without being obtained the approval of the Department of Management Services and the allowances aggregating Rs. 1.61 million paid during the year under review.