

## **Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2017**

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The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) for the year ended 31 December 2017 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 the Loan Agreement No.SL-P 108 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka 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 Highways and Road Development 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 thereby 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 in March 2013 and scheduled to be completed by 2019.

### **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 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 are 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 which 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 the 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 report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 Deficiency

The following accounting deficiencies were observed in audit.

(a) The Project had procured 04 motor vehicles during the year under review at a cost of Rs.33.5 million through the contractors engaged in civil construction works of the Project and it had been shown under the civil work- in -progress without considering the different life time of the respective assets.

(b) The interim payments aggregating to Japan Yen 154.5 million made in December 2017 had been converted at the exchange rates of Rs.1.0825 and Rs.1.2714 instead of being adopted the actual exchange rates prevailed in the respective months. As result, the cost of the civil works and the payables to contactors shown in the financial statements had been understated by Rs.43.43 million.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	during the year 2017		Funds utilized up to 31 December 2017	
	Yen million	Rs. million		Rs. million	Yen million	Rs. million	Yen million
JICA	12,381	20,914	2,694	1,963.38	2,680	5,634.87	7,169.90
GOSL	3,751	6,336	300	125.50	167	297.80	396.20
<b>Total</b>	<b><u>16,132</u></b>	<b><u>27,250</u></b>	<b><u>2,994</u></b>	<b><u>2,088.88</u></b>	<b><u>2,847</u></b>	<b><u>5,932.67</u></b>	<b><u>7,566.10</u></b>

The following observations are made.

(a) It was observed that the Project had not prepared a comprehensive plan and action plan and as a result, the progress of the Project as a whole could not be monitored and

evaluated in order to take corrective measures and to achieve the objectives of the Project in timely manner.

- (b) The Project had utilized the proceeds of the Loan of Japan Yen 5,635 million equivalent to Rs.7,170 million representing 46 per cent of the total amount of the Loan of Yen 12,381 million equivalent to Rs. 20,914 million as at 31 December 2017. Therefore, the possibility of utilization of balance amount of Japan Yen 6,746 million is remained doubtful during the rest of the period of the Project.
- (c) The detailed Budget for the year under review for the Project based on the work schedules had not been prepared by the Project. Therefore, a sum of Rs.126 million had only been utilized, out of the allocation amounting to Rs.300 million made in the Annual Budget Estimate of the Line Ministry.

### **3.2 Physical Progress**

According to the Loan Agreement, it was expected to construct the 37 new Major Bridges on 19 national roads under 05 contract packages and scheduled to be completed at the end of the year under review. Out of 10 Major Bridges scheduled to be construct at a cost of Rs. 7,098 million under the Package -01, the works on construction of 09 Major Bridges had been completed as at 31 December 2017. However, the construction works of 02 Bridges at Polwathumodara and a Bridge of Goviyapana of the Colombo - Galle – Hambantota - Wellawaya Road under the Package - 01 had been completed with the delays of 150 days. The physical progress on construction of 08 Major Bridges under the Package - 02 at an estimated cost of Rs.3,786 million had remained at a range from 34 per cent to 57 per cent as at 31 December 2017. Further, works of other 19 Major Bridges under other 03 Packages were remained in the designing and reviewing stages.

### **3.3 Contract Administration**

The following observations are made.

- (a) It was observed that the Bills of Quantities of the Major Bridges to be constructed under Package - 01 had been prepared by the Project without proper detailed engineering studies. It was observed that the works under 660 items at an estimated cost of Rs.374.39 million included in the Bills of Quantities had not been performed, eventhough the construction works of the respective Major Bridges were completed as at 31 December 2017. Further, the scope of works of other 244 items had been increased and additional cost of Rs.272.48 million incurred thereon.
- (b) According to the Schedule 04 of the Section 2 (4) of the Loan Agreement, the Japanese products and services representing 30 per cent of the total cost on civil construction works of the Project should be used for bridge construction purposes. However, there was no mechanism adopted by the Project to identify the Japanese products and services required to be used thereon. It was observed that the Project had procured and constructed a Steel Bridge with 90 meter length and 10.40 meter width at a cost of Rs.485 million and replaced the old bridge with 30.49 meter length and 3.65 meter width at Denagama of Hakmana- Meella- Thalahaganwaduwa Road to meet the above mentioned requirement stipulated in the Loan Agreement.

- (c) The site visits made in July 2018 on construction works of 09 Major Bridges completed under the Package - 01 in the Southern Province had revealed that the expansion joints of all bridges were not properly fixed and the carriage ways of the roads, edge concrete adjacent to the foot walk and hand rails were damaged.

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

The following observations are made.

- (a) The clause stipulated under the Schedule 04 of the Section 2 (1) a of the Loan Agreement had indicated that the Japanese contractors or joint ventures in collaboration with Japanese contractors were only qualified to submit the bids for civil construction works implemented under the Project. As a result, only 03 bidders had responded for the construction works under the Package -01 whilst responding only a single bidder for the construction works under the Package -02. Thus, it evidenced that the above mentioned clause in the Loan Agreement had restricted the opportunities for fair competition on submission of the bids for civil construction works of the Project.
- (b) The Project had hired 15 motor vehicles since June 2015 under the Package - 01 and spent a sum of Rs.218 million as hire charges up to 31 December 2017. According to the information made available, similar type of motor vehicle could have been outright procured at a cost of Rs.121.90 million at the prevailing market prices.

### **3.5 Fruitless Expenses**

The following observations are made.

- (a) It was observed that the Project had not maintained proper implementation plan for the construction works and as a result, 09 Major Bridges initially identified to reconstruct in Kegalle, Rathnapura and Kurunegala districts had been subsequently cancelled. Hence, a sum of Rs.1.27 million spent by the Project in 2016 for the designing of the above mentioned bridges had become fruitless.
- (b) The construction works of other Bridge at Polathumodara of Colombo – Galle – Hambantota -Wellawaya Road commenced on 20 March 2015 at an estimated cost Rs.80.71 million had been subsequently abandoned due to poor ground condition of the location selected. Therefore, a sum of Rs.17.99 million spent thereon up to 2016 had become fruitless
- (c) The commitment charges aggregating to Rs.25.26 million had been recovered by the Lending Agency during the year under review and previous year respectively on the undisbursed amount of Loans.

**3.6 Lands Acquisition and Resettlement Activities of the Project**

According to the information received, the Project had planned to acquire 390 plots of land including 178 crown lands for the construction of 13 Major Bridges under 03 packages and compensations amounting to Rs.186.04 million had been paid on 69 plots of land up to 31 December 2017. In addition to that a sum of Rs.9.38 million had been spent as interest on delays in settling compensation payments at the end of the year under review.

**3.7 Human Resources Management.**

Eventhough 61 cadre positions had been approved by the Department of Management Services, the staff of the Project Monitoring Unit had comprised with 36 members at the end of the year under review. It was observed that 25 posts including the posts of an Engineer and 09 Technical officers had remained vacant at the end of the year under review for over 03 years.