

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2018

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 2018 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 provisions in 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. My comments and observations which I consider should be reported to Parliament appear in this report.

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, Road Development and Petroleum Resources Development is the Executing Agency and 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 Japanese 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Projects ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

The following observations are made.

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
(a) The Project had procured 05 motor vehicles at a cost of Rs.44.83 million during the year under review through a contractor involved in bridge construction works had been shown under the civil work-in-progress in the financial statements, without being considered the different life times of the respective assets.	Misapplication of accounting policy.	Agreed. This had been rectified in 2019.	The cost of 05 motor vehicles should be separately identified and account under Property, Plant and Equipment.
(b) The values of civil work-in-progress and the retention money payable shown in the financial statements for the year under review had been understated by Rs.94.65 million, due to an accounting error.	Understatements of value of civil work-in-progress	-Do -	The value of works certified should be accounted as the value of works done.
(c) The compensation on acquisition of lands aggregating Rs.10.04 million paid by another foreign funded project on behalf of this Project had not been brought to account.	Understatement of cost of land acquisition	-Do-	Need to account under the cost of land acquisition.

Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the Project documents, it was expected to reconstruct 37 new bridges on 19 national roads in the Southern, Northern, North Western, Sabaragamuwa and Western Province and the Project and awarded construction contracts under 05 contract packages. The construction works of 10 bridges in the Southern Province had been	Possible delays in completion of bridge construction works.	Eventhough original plan comprising with reconstruction of 37 bridges under the Project, funding arrangements thereon was not adequate. Therefore, the construction works of 21 bridges were completed.	According to the initial plan, the reconstruction works of the bridges need to commence within first 2 years to complete it before the expiry of the period of Loan.

completed as at 31 December 2018 and out of that the works of the bridges at Polatumodara and Goiyapana commenced on 20 March 2015 had been completed with delays ranging from 166 days 438 days, due to time taken to hand over of the sites, extra works and delays in shifting utility services etc. The construction activities of 08 new bridges in the Northern Province commenced on 24 November 2016 had also been completed as at 31 December 2018 with delays over 120 days. Further, the bridge construction works of 19 new bridges in other 03 Provinces had not been commenced even as at 30 June 2019.

3.2 Contract Administration

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) It was observed that the Bills of Quantities for the construction of bridges had been prepared without following proper engineering studies. As a result, the extra works under 643 items of 10 bridges in the Southern Province had been carried out at a cost of Rs.396.15 million. Further, the works under the 832 items at a cost of Rs.443.30 million of 08 bridges in the Northern Province had not been completed as at 31 December 2018. It was further observed that the scope of works under 122 items included in the initial Bills of Quantities of contract packages awarded had been subsequently increased over 100 per cent.	Possible increase of the cost of contracts.	The extra works related to the day works for unforeseen works that cannot be covered by definitive description and approximate quantities in the Bill of Quantities.	Need to conduct detailed Engineering studies and soil testing before preparing the Bill of Quantities.

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| (b) | The construction works of the bridge at Polathumodara of Colombo – Galle – Hambantota – Wellawaya Road commenced on 20 March 2015 at an estimated cost of Rs.80.71 million had been subsequently abandoned in 2016, due to poor ground condition of the location selected. It was observed that the works valued at Rs.17.99 million was remained in progress at the time of termination of the work. | Expected benefits will not be received to the stakeholders. | The design of the bridge structure was changed, due to unforeseen behavior of the sub soil. This type of unexpected changes can be rarely happens in Civil Engineering construction Projects. | Need to executed detailed Engineering studies and soil testings before commencing the construction. |
| (c) | The Project had hired 15 motor vehicles for the use of the staff members engaged in bridge construction works in the Southern Province and allocation amounting to Rs.178.67 million had been made in the Bill of Quantities thereon. However, a sum of Rs.254.42 million had been spent as at 31 December 2018 by exceeding the allocations made. | Additional cost to the Government of Sri Lanka. | The vehicles were required for an extended period for supervision of works. | Action should be taken to complete the construction works within the initial planning period. |

3.3 Under Utilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
It was observed that only Japan Yen 7,003 million had been utilized as at 31 December 2018 representing 57 per cent of the allocation of Japan Yen 12,381 million made in Loan Agreement, due to delays in completion of construction of new bridges. Further, the commitment charges amounting to Rs.68.53 million had been recovered by the Lending Agency up to 31 December 2018 on the proceeds of the Loan undisbursed.	The total allocation of Japan Yen 12,381 million would not be utilized for the construction of new 37 Bridges.	The donor Agency had not granted the consent to proceed with civil works under the contract package 03, due to expiry of the Pro fell on 05 July 2021.	Need to plan the bridges construction works properly to complete within the period of the Project.

3.4 Issues on Land Acquisition

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the information received, the Project had planned to acquire 411 plots of land including 180 crown lands for the construction of 13 bridges under 03 contract packages and compensations amounting to Rs.248.89 million had been paid for 88 plots of land up to 31 December 2018. In addition, a sum of Rs.27.82 million had been spent as interest on delays in settling compensation payments at the end of the year under review.	Affected to delays in completion of the bridge construction and increase the interest cost of acquisition of lands.	Not properly commented.	Need to take action to complete land acquisition before starting construction works. In addition to that, Adequate planning, progress reviewing, supervision and controls over compensation payments are required.