

## **Reconstruction of 25 Bridges Project - 2018**

-----

The audit of financial statements of the Reconstruction of 25 Bridges 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 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. 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, then Ministry of Highways, Ports and Shipping, presently Ministry of Roads 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. As per the Loan Agreement, the estimated total cost of the Project was US\$ 35.41 million equivalent to Rs 4,632 million was agreed to be financed by the Kuwait Fund for Arab Economic Development. The Project had commenced its activities on 07 September 2015 and scheduled to be completed by 05 September 2017. However, the date of completion of the activities of the Project had been extended twice up to 31 December 2021.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the 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 Sri Lanka Public Sector Accounting Standards.

### **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 Auditor's Responsibilities for the Audit of the Financial Statements section of 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 Project 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 Deficiency

<b>Accounting Deficiency</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The value of work-in-progress of 08 bridges constructed under the Contract Package -01 of the Project had not been identified separately and shown in the financial statements for the year under review.	Details of the value of work-in-progress not made available.	Agreed. Directly attributable cost for each bridge will be shown in the financial statement 2019 onward.	The cost of the completed bridges should be shown separately as enable to hand over the assets to the Road Development Authority, once the construction works completed.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	Physical performance as at 31 December 2018		Impact	Response of the Management	Auditor's Recommendations
		Expected percentage	Achieved percentage			
Package 01	Reconstruction of widening of 8 bridges	100	67	Expected benefits would not be reached to the stakeholders in time.	The works had not been implemented according to the time plans, due to poor financial capacity of the contractor and regular disputes arise between employer and the contractor.	Actions need to be taken to meet the time, physical and financial targets as per the Loan Agreement.
Package 02	Reconstruction of widening of 9 bridges	The bridge design works had been completed and remain in process of preparation of bid documents.		-Do -	The contract for civil construction works had been awarded in 2019.	
Package 03	Reconstruction of widening of 8 bridges	Action had been initiated to select the Consultant		-Do-	Technical evaluations to select a suitable Consultant had been completed in 2019.	

### 3.2 System and Controls

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
A guarantee bond had not been obtained on the special advance amounting to Rs. 49 million released to complete the remaining civil works under the Package – 01, considering the poor financial capacity of the contractor.	Undue favours made to the contractor and the recovery of the advances remained in doubt.	Advance released after obtaining the approval of Secretary of the Line Ministry.	Need to be reconsidered the legality of the payment and recover the dues as early as possible.