

## **Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges) - 2018**

---

The audit of the financial statements of the Miscellaneous Foreign Aided (Reconstruction of 46 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 the Loan Agreement No. B92 0AI dated 05 November 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the NATIXIS Bank of France. 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 Ports, Highways and Shipping is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. It was targeted at the initial stages to supply of 46 steel bridges to Sri Lanka and subsequently added another 04 bridges by using the saving of the proceeds of the Loan. As per 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 agreed to be provided by NATIXIS Bank of France. The Project commenced its activities on July 2013 and scheduled to be completed by July 2015. However, the acquisition of lands had not been completed and the financial statements of the Project had been prepared up to 31 December 2018 and presented for audit.

### **1.3 Opinion**

In my opinion, 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.

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

## **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 the project's internal control.
- 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. Physical Performance**

### **2.1 Physical progress of the activities of the Project**

According to the information received, the reconstruction works of 27 bridges had been completed in 2015 at a cost of Rs.3,084.22 million. Further, the reconstruction works of other

23 bridges had also been completed as at 31 December 2017 at a cost of Rs.3,395.57 million with the delays ranging from 29 days to 455 days.

## 2.2 Matters in Contentious Nature

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Eventhough the Project had recovered delay charges amounting Rs.68.04 million from the contractors involved in reconstruction works of 13 bridges, a sum of Rs.40.78 million related to reconstruction works of 10 bridges had been released up to 31 December 2018 to the contractors allowing time extensions.	Weaken controls on contract administration.	According to the available details, contractors engaged in reconstruction of 17 bridges out of 50 bridges had been granted time extension. In addition, 13 contractors were charged liquidated damages. However, with the approval of the Director General, Road Development Authority had deducted a sum of 40.78 million liquidated damages and released to relevant contractors.	Proper supervision on reconstruction works needed to be adopted to minimize the delays and requests of the contractors for time extensions.

## 2.3 Issues on Land Acquisition

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
According to the information received, it was scheduled to acquire 305 plots of land. Therefore, the notices under the Section 17 of the Land Acquisition Act had been issued to acquire 62 plots of land and out of that compensation amounting to Rs.21 million had been paid on 58 plots of land as at 31 December 2018. However, only 03 plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2018.	Possibility to extend the operations of the Project Monitoring Unit	Section 44(1) had been issued for all 62 plots as at 31 December 2018. The matter is being clearly supervised with the relevant Divisional Secretaries.	Need to maintain proper coordination with the Divisional Secretaries and monitor the activities regularly.