

Reconstruction of 25 Bridges Project – 2020

The audit of financial statements of the Reconstruction of 25 Bridges Project for the year ended 31 December 2020 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 the 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. The activities of the Project are implemented under three components namely package 01, 02 and 03. 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 initially been extended up to 31 December 2019 and then 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my reports, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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 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

Accounting Deficiency	Amount Rs. million	Response of Management	the Auditor's Recommendation
The Gratuity expenditure had been brought to this financial statements without being apportioned proportionately among other projects operated under the same Project Monitoring Unit.	1.14	This has been done through the transfers between the inter current accounts of the relevant projects. But the cash has not been transferred from closed project to existing project	Expenditure reimbursed from those projects.

2.2 Non- compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non- Compliance	Response of the Management	Auditor's Recommendation
(a)	Sri Lanka Public sector Accounting Standard 19 – Employment Benefits.	The method which is being used by the project for calculating gratuity for its employees had not been disclosed in the financial statement for the year under review.	Agreed. The simplified method will be used to calculate gratuity provision with effect from financial year 2021 and the method adopted for the calculation of gratuity will be disclosed in the future Financial Statements.	The relevant accounting policy should have been disclosed in the financial statements.
(b)	According to the sub clause 9.3 of the Management Circular No. 01/2019.	Only one Project Steering Committee meeting was held in the year under review.	Agreed. Steering Committee Meetings could not be held as scheduled, mainly due to Covid – 19 Pandemic situation. However, it is expected to hold the Steering Committee Meeting in 2022 as per the Management Services Circular No.01/2019.	It is required to ensure that the project steering committee would meet at least once in two months.

3. Physical Performance

3.1 Progress of the Activities of the Project

The project is funded by Kuwait Fund for Arab Economic Development (KFAED) is mainly divided into 03 packages. 08 bridges included in the package 01 substantially completed at a cost of Rs. 1,168.35 million and handed over to the Road Development Authority on 19 June 2020. However, the physical progress of the 09 bridges included in the package 02 had remained at 44.98 per cent as at 31 December 2020 and physical progress of the balance 08 bridges included in the package 03 had remained at 15.83 per cent as at that date, eventhough the above two packages expected to be completed in the year of 2022. Further, it was observed that a sum of Rs.403.64 million equivalent to 25 per cent of the foreign loan allocation for the year under review had not been utilized as at 31 December 2020.

3.2 Payments made out of the Project objectives

Audit Issue	Response of the Management	Auditor's Recommendation
A sum of Rs. 10.014 million of the compensation payment relevant to the Major Bridges construction project (JICA) had been made by the Project without approval of the Secretary of the Line Ministry.	The Reconstruction of 25 bridges Project funds were utilized to pay the compensation under Major Bridges Construction project with the verbal consent of Chief Financial Officer of the Ministry of Highways and Road Development.	The compensation cost of Major Bridges construction project should be recovered.