

## **Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges) - 2017.**

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The audit of financial statements of the Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges) for the year ended 31 December 2017 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. This Project is implemented under the Loan Agreement No.B92 0A1 dated 05 November 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the NATIXIS Bank of France.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreement of the Project, then Ministry of Ports and Highways and Shipping, 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 Project is launched to supply of 46 steel bridges to Sri Lanka. 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 equivalents to Rs.3,642 million agreed to be provided by NATIXIS Bank of France. The Project commenced its activities on 17 July 2013 and scheduled to be completed by July 2015. However, the activities had been continued until 31 December 2017.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 and 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 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 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 Donor 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 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.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 of this 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) 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 Deficiencies

The following observations are made.

(a) The costs on construction of bridges as at 31 December 2017 relating to the bridge No. 10/3 of Katukurunda - Neboda Road and bridge No. 4/8 of Hiniduma – Opatah – Pitabeddara Road shown under the work- in- progress of the financial statements had been overstated by Rs.1.09 million, due to accounting errors.

(b) Even though the construction works of 35 bridges had been completed as at 31 December 2017 and handed over to the Road Development Authority, the cost aggregating Rs.4,500 million thereon had remained as the assets of the Project and shown under work – in progress in the financial statements.

## 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 according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	Euro million	Rs. million		during the year under review	up to 31 December 2017	Euro million	Rs. million
Lending Agency	22.05	3,642.00	-	-	-	21.82	3,781.00
Government of Sri Lanka	23.75	3,922.00	280.00	1.51	276.21	15.19	2,773.00
	<u>45.80</u>	<u>7,564.00</u>	<u>280.00</u>	<u>1.51</u>	<u>276.21</u>	<u>37.01</u>	<u>6,554.00</u>

### **3.2 Physical Progress**

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Even though the Loan Agreement of the Project had been entered into on 05 November 2012, the bridge construction activities had been commenced in July 2013. However, the construction activities of 50 bridges including additional 04 bridges expected to be constructed using savings of the construction of other bridges had been completed at 31 December 2017 which scheduled to complete the construction works by July 2015.

### **3.3 Contract Administration**

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According to the information received, the construction works of 23 bridges had been completed at a cost of Rs.3,395.57 million with delays ranging from 29 days to 455 days. However, the delay charges amounting to of Rs.40.78 million related to 09 bridges had been released to the contractors as a result of granting time extensions to complete the bridge construction works. Further, the construction works of the bridge No. 12/3 on Katukurunda - Neboda Road and the bridge No.5/4 on Ingiriya - Halwatura - Egaloya Road had been completed with delay of 127 days and 58 days respectively and neither approval had been granted for extension of time nor recover the delay charges, as per the Clause No 49.1 of the contract agreement.

### **3.4 Land acquisition Activities**

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According to the information received, it was scheduled to acquire 288 plots of land and out of that notices had been issued only for 62 plots of land under the Section 17 of the Land Acquisition and Resettlement Act whilst settling payments for compensation amounting Rs.19.31 million for 55 plots of land as at 31 December 2017. However, the ownership of 03 plots of land had only been transferred to the respective Divisional Secretaries as at 31 December 2017 under the Section 44 of the Land Acquisition and Resettlement Act.