

New Bridge Construction Project over the Kelani River - 2018

The audit of financial statements of the New Bridge Construction Project over the Kelani River 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 with provisions of the Loan Agreement No. SLP-III dated 28 March 2014 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 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 Highway, presently the Ministry of Highways and Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to mitigate and disperse traffic congestion by constructing a new bridge across the Kelani River as a high mobility link, there by contributing to the improvement of transportation network in Colombo City and promoting economic development. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 41,429 million equivalent to Rs.55,313 million and out of that Japan Yen 35,020 million equivalent to Rs.46,755 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs.8,558 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 July 2014 and scheduled to be completed by 01 July 2023.

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 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 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 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 Deficiencies

The following observations are made.

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
(a) A sum of Rs. 58.97 million payable as at 31 December 2018 to the contractors engaged in civil construction works of the Project had not been brought to account.	Understatement of the values of work-in-progress and the current liabilities.	Expenditure related to the previous year had been collected and treated as accrued charges as much as available documentary evidence.	Need to make provision on payables at the end of the year under review.
(b) The building procured by the Project for residential purposes on displaced persons and handed over to the Road Development Authority on 17 April 2017 had been continuously shown under work-in-progress.	-Do -	The resettlement of affected parties is considered as a Project activity and retained under the work-in-progress until handing over the assets to the Road Development Authority.	Need to identify it as a separate assets based on the life time of the assets.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The following observations are made.

- (a) The construction works of new bridge adjoining the existing bridge over Kelani River with 06 traffic lanes interchange and elevated road to Colombo Port under 02 contracts for the construction of an extra-dosed bridge and steel bridge had been commenced in last quarter of 2017 scheduled to be completed within 03 years. According to the information received, the physical progress of 31.14 per cent and 10.07 per cent respectively had been achieved as at 31 December 2018 against the expected physical progress of 38.35 per cent and 11.16 per cent to be achieved as at that date.

- (b) According to the Memorandum of Understanding entered between the Road Development Authority and the Ceylon Electricity Board on 27 March 2014, the works to convert existing electricity transmission lines into underground cable lines is required to be completed as at 31 December 2016 at an estimated cost of Rs. 1,240 million. However, the respective works had not been completed even after the elapse of 02 years as at 31 December 2018.

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 advance guarantee bond presented by the selected contractor on contract for conversion of overhead high voltage electricity transmission lines had been expired on 17 August 2018 and no action had been taken to get renewed it.	Possible risk on recovery of dues.	Action will be taken to renew.	Prompt action need to be taken to renew the guarantee bonds.
(b) The temporary road constructed to diverse vehicle movements of the Colombo-Katunayake Expressway had not been identified at the stage of the details designing and additional cost of Rs. 463 million had to be spent thereon.	Addition cost on bridge construction	Not commented	All possible alternatives need to be investigated to avoid additional costs.

3.3 Extraneous Activities

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
It was observed that 03 houses procured at a cost of Rs.6 million to resettle the persons displaced had been used for office requirement instead of using for the intended purpose.	Intended objectives were not achieved.	At present the remaining 03 houses are used for an office and other operational requirements related to the grievances redress works arising, due to resettlement works specified in the approved Resettlement Action Plan.	Need to use the houses for intended purposes.

3.4 Issues Related to Human Resources Management

It was observed that the key managerial and operational positions of the posts of a Project Engineer, a Quantity Surveyor and 04 Site Engineers/Technical Officers had remained vacant since the commencement of the activities of the Project.