

## **New Bridge Construction Project over the Kelani River - 2022**

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The audit of financial statements of the New Bridge Construction Project over the Kelani River for the year ended 31 December 2022 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. 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 of the Project, then Ministry of Ports and Highway, presently the Ministry of Transport and Highways 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. The activities of the Project are implemented under 02 components namely steel Bridge Section and Extra dosed section. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 41,429 million equivalents to Rs.55, 313 million and out of that Japan Yen 35,020 million equivalents to Rs.46,755 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs.8, 558 million expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 July 2014 and scheduled to complete by 25 November 2021 and 25 October 2021 respectively. However, the date of completion of the activities of the Project had been extended up to 01 July 2024.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 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 scepticism 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

No	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of Management	of the Auditor's Recommendat ions
(a)	According to the Section No. 39 of Sri Lanka Public Sector Accounting Standard No.02, gains or losses resulting from changes in foreign currency exchange rates are not a cash flow and the related effect should be reported when comparing the opening	31,640	The unrealized loss had not been shown under the cash flow statement based on the guidelines specified in paragraph 55 of Sri Lanka Public Sector Accounting Standards No.02.	Adhere to the Sri Lanka Public Sector Accounting Standard

and closing cash and cash equivalents. However, a value generated from changes in the exchange rate during the year under review had not been recorded as per the standard.

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| (b) | Although Rs.445.06 million had been given by the Road Development Authority as a loan from two banks to finance the project activities, the borrowing cost related to that loan amount had not been identified as project expenses as per the accounting policy No. 04 of the project. | Road Development Authority had obtained loans to meet some of its expenditure and Part of this, amounting to Rs. 445.06 million has been given to this project for urgent land acquisition works as a temporary financing. Since the Project had not obtained loans, the borrowing cost of aforesaid loan could not be accounted by this project. | Adhere to the Sri Lanka Public Sector Accounting Standards. |
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## 2.2 Non Compliance with Laws, Rules and Regulations

<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019.	The Project Steering Committee meeting had not been held in accordance with the circular.	Due to Covid 19 pandemic situation, Project Steering Committee Meetings could not be conducted.	Action should be taken to conduct Steering Committee Meeting as stipulated manner.

## 3. Physical Performance

### 3.1 Contract Administration

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Even though the contractors had not been attended to rectify 16 defects which were noticed in the year 2022/2023, the project had not taken any action in this regard even up to 30 June 2023.	All the defects will be rectified before the expiry of the Defects Notification Period in November 2023.	Action should be taken to complete the construction work within the scheduled period of time

### 3.2 Underutilized Resources

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
A communication building had been completed by incurring of Rs.24.45 million. Moreover, electrical equipment had also been installed for operational purposes in this building. However, the building and the camera system had not been operated up to June 2023. Furthermore, the interior parts of the two air conditioners installed for this building had been removed and damaged by the thieves, however the action had not been taken in this regard in terms of FR 104 of the Democratic Socialist Republic of Sri Lanka.	At present the work related to installation of camera system has been completed. Therefore the camera system is now in operational condition. The EOM&M Division of RDA is taking necessary legal actions regarding the damages caused to the electrical equipment. Action will be taken by RDA in terms of FR 104 of the financial regulations.	The Building should be utilized for the purpose.

### 3.3 System and Controls

<b>No</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a)	The reports containing the equipment, their value and the dates of importation under re-exporting agreement were not submitted to the audit. Furthermore, a part of the equipment had been exported in June 2023, while another part had been retained in the country. Therefore, tax loss incurred by the Government could not be verified in audit.	The construction machinery and other equipment brought to the country under the re-export category were released by Sri Lanka customs on submission of Corporate Guarantees issued by the Ministry. These Corporate Guarantees are released by the Sri Lanka Customs, when these items are re-exported by the Contractors.	Required information should be furnished to the audit
(b)	Before the commencement of the construction work, a land area of 12.9 hectares consisting of 968 plots of land belonging to various parties had been acquired for the project by incurring a cost of Rs.1,134.94 million. But, action had not been taken even by 06 June 2023 to transfer the lands to the Road Development Authority according to Section 44 of the Land Acquisition Act.	Majority of the 968 plots used for construction works were state lands encroached/ occupied by the unauthorized persons. Therefore Section 44 of the Land Acquisition Act need not be published in respect of those state lands. In respect of the other lands the registration process under Section 44 is ongoing.	Action should be taken to expedite the land acquisition Process.