

Regional Bridge Project using British Government Financial Assistance (UK Steel Bridges Project – Phase - 1) – 2014

The audit of financial statements of the Regional Bridge Project using British Government Financial Assistance (UK Steel Bridges Project –Phase-1) for the year ended 31 December 2014 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 Loan Agreement No.53 M/FC 1207 (2007027/SL) dated-16 November 2007 entered into between the Democratic Socialist Republic of Sri Lanka and the Hong Kong and Shanghai Banking Cooperation Public Limited Company for construction of Steel Bridges on National Highways.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Highways, Ports and Shipping presently, Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to enhance and strengthen the road infrastructure by;

- (a) designing, surveying and supplying of 222 rural bridges,
- (b) supplying of accessories for launching and fixing bridges
- (c) providing for emergency single lane bridges and
- (d) providing UK technical assistance and training for over 4 years for launching and fixing bridges.

As per the Loan Agreement, the estimated total cost of the Project was Rs.21,784 million and out of that UK£ 50 million equivalent to Rs.11,284 million was agreed to be provided by the Hong Kong and Shanghai Banking Cooperation Public Limited Company. The Project commenced its activities on 23 January 2008 and scheduled to be completed by 22 January 2012. However, the Project activities had been continued up to 31 December 2014.

1.3 Responsibility of the Management for the Financial Statements

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

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, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (f) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (g) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

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 matters referred 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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 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) The 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 Deficiency

The Cash Flow Statement of the Project for the year under review had not been prepared in accordance with the SLPAS- 02 to segregate and show the operating, financing and investing activities clearly.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized	
	UK£ million	Rs. million		during the year under review	as at 31 December 2014
	UK£ million	Rs. million	Rs. million	Rs. million	Rs. million
Donor Agency	50.0	11,284.0	-	-	16,173.6
GOSL	46.5	10,500.0	39.0	55.7	8,046.7
	96.5	21,784.0	39.0	55.7	24,220.3
	=====	=====	=====	=====	=====

3.2 Physical Progress

The following observations are made.

- (a) The initial contract had been subsequently revised in eight instances during the period from 2007 to 2010 with the concurrence of the supplier and with the approval of the Cabinet of Ministers. Therefore, 222 adjustable bridges with a length of 5,563 linear metres had been reduced to 169 bridges with a length of 4,672 linear metres. Further, five new flyovers with a length of 1,484 linear metres had also been added. As a result of such frequent changes in the initial scope of works of the contract, the Project Monitoring Unit had failed to identify the exact locations, length, width and priorities of the construction of bridges. The initial plans of the bridges thereon had also been altered.
- (b) Physical performance of the Project as at 31 December 2014 is described in the table given below.

Category of Bridge	No. of Bridges		No. of Bridges Constructed		
	Agreed to Supply	Supplied	Permanent	Temporary	Work In Progress
Flyovers	5	5	5	-	-
Quick Bridges	59	59	52	-	-
C-200 Bridges	67	67	*100	7	1
Delta Bridges	4	4	4	-	-
Atlas Bridges	6	6	6	-	-

*C-200 Bridges are adjustable bridges and more bridges had been constructed than targeted previously.

3.3 Contract Administration

- (a) It was observed that 08 bridges constructed in the Outer Circular Road in Trincomalee in 2009 and 2010 at a cost of Rs.3,495 million had remained unutilized, as the construction works of the Road was abandoned.
- (b) The construction works of 10 bridges had been completed at a cost of Rs.36.53 million in 2014 eventhough such bridges had been scheduled to be completed in 2011 and 2012. The Project had allowed several extensions to time without considering valid reasons and as a result, the liquidated damages had not been reasonably determined.
- (c) It was observed that steel bridge components valued at Rs. 78.19 million had been handed over to the office of the Executive Engineer's of Road Development Authority at Kuliypitiya on 08 April 2010 and 16 August 2010 to construct a bridge in Galadeniya Apaladeniya Road. However, construction works of the bridges had not been completed after lapse of 5 years.