

Regional Bridge Project II using British Government Financial Assistance (UK Steel Bridges Project) - 2013.

The audit of financial statements of the Regional Bridge Project using British Government Financial Assistance (UK Steel Bridges Project) for the first accounting year ended 31 December 2013 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.53 M/FC/1448 (201327/SL) dated 21 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the HongKong and Shanghai Banking Corporation Public Limited Company (HSBC) 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, the Executing and Implementing agencies of the Project are the Ministry of Highways, Ports and Shipping (MOHP&S) presently, Ministry of Highways, Higher Education and Investment Promotion and the Road Development Authority (RDA) respectively. The objective of the Project is to enhance and strengthen the road infrastructure by;

- (a) designing, surveying and supplying of 104 rural bridges,
- (b) contribution to local services and Local Materials.
- (c) providing UK technical assistance and training for over 4 years

Subsequently, 104 bridges had been substituted by 96 bridges by the Procurement Committee appointed by the Cabinet of Ministers. As per the Loan Agreement, the contract for the supply and installation of the bridges had been awarded on lump-sum - basis to a contractor in the United Kingdom on 26 April 2012 at a cost of Sterling Pounds 45 million equivalent to Rs. 9,778.05 million. The Project commenced its activities on 19 September 2013 and scheduled to be completed within 4 years by 18 September 2017.

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 Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from operations of the Project, the identifications of purchases made out of the Loan etc,
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles and
- (g) Whether financial covenants laid down in the Loan Agreement had been complied with.

3. 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 the matters referred to in paragraph 5 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided and
- (c) the financial covenants laid down in the Loan Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the first accounting year ended 31 December 2013 amounted to Rs. 4018 million. The following statement shows a summary of the expenditure for the year under review.

Description	Expenditure for the year ended 31 December 2013
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	Rs.
Fixed Assets	416,827
Bridges	441,324,586
Technical Assistance	15,998,688
Project Management	16,596,689
Current Assets	3,543,955,687

	4,018,292,477
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5. Audit Observation

According to the contract agreement, the contractor is responsible to carry out site dimensional and geotechnical surveys for the design of the bridge super structures. However, the Road Development Authority had conducted detailed planning for 50 bridges and the cost incurred thereon had not been determined and brought to the account. Further, a sum of Rs. 1,037,865 spent by the Project for Bore hole Investigation had been treated as the cost of the Project without taking action to recover from the contractor.

6. Financial and Operating Review

6.1 Utilization of Funds

According to the financial statements and information made available, certain significant statistics relating to the financing of the Project, budgetary provisions and the utilization of funds of the Project during the period under review and the position as at 31 December 2013 are shown below.

	<u>Amount agreed for financing as per Loan Agreement</u>		<u>Budgetary provision for the year 2013</u>	<u>Utilization of funds for the year 2013</u>	<u>Funds utilized up to 31 December 2013</u>
	UK£ Mn)	Rs. (Mn)	Rs.(Mn)	Rs.(Mn)	Rs.(Mn)
HSBC	45.0	9,778.05	1,500	3,533.06	3,533.06
GOSL	-	2,500.00	200	118.19	118.19
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Total	45.0	12,778.05	1,700	*3,651.25	3,651.25
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* This amount does not agree with the amount shown in the Paragraph 4 of the report as payables at the year end was not included.

6.2 Physical Performance

The Project had not prepared a comprehensive project plan and action plan in order to evaluate the performance of the Project periodically. Further, the initial scope of works of the contract had been subsequently revised in two instances with the concurrence of the supplier of the bridges and with the approval by the Cabinet of Ministers. Therefore, 104 adjustable bridges with a length of 3,077.9 linear metres had been reduced to 96 bridges with a length of 2,999.5 linear meters. As a result of such frequent changes in the initial scope of works of the contract indicated that the Project Monitoring Unit (PMU) had failed to identify the exact locations, length, width and priorities of the construction of bridges and the initial plans thereon had been altered. The physical performance of the Project as at 31 December 2013 is described in the table given below.

Category of Bridges -----	No. of Bridges proposed to be constructed ----- Nos.	No of bridge works commenced as at 31 December 2013 ----- Nos.
Adjustable bridges (C200)	39	5
Compact Quick bridge	33	1
Delta bridge	2	-
Atlas bridge	21	5
Composite bridge	1	1
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Total	<u>96</u>	<u>12</u>