

Kuwait Funded Bridges Reconstruction and Rehabilitation Project -2013

The audit of financial statements of the Kuwait Funded Bridges Reconstruction and Rehabilitation Project for the 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 Agreements No.466 and No.627 dated 27 March 1995 and 03 September 2001 respectively entered into between the Kuwait Fund for Arab Economic Development and the Government of the Democratic Socialist Republic of Sri Lanka.

1.2 Implementation, objectives, funding and duration of the Project

According to the Loan agreements of the Kuwait Funded Bridges Reconstruction and Rehabilitation Project, the Road Development Authority (RDA) is the implementing agency of the Project. The objectives of the Project are to support the national economy of Sri Lanka by reducing transport cost of agricultural and industrial products and reducing travel time between the country's regions and the capital. The Project also aims at improving road safety through the rehabilitation, reconstruction or replacement of narrow and weak 32 bridges and the widening of the Gatembe-Gannoruwa road. The total estimated cost of the Project was Kuwait Dinnar 10.12 million equivalent to Rs.3,432 million and out of that Kuwait Dinnar 5.10 million equivalent of Rs,1728.2 million was expected to be used for rehabilitation, reconstruction or replacement of bridges and agreed to be financed by the Kuwait Fund for Arab Economic Development (KFAED). The project commenced its activities on 27 March 1995 and scheduled to be completed within 33 months by 31 December 1997. This period had been extended by another 13 years in 7 instances 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 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 test 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 explanation which to the best of my knowledge and belief where 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 tests 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 on 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 the 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 specification laid down in the Loan Agreements.
- (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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

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,
- (c) the statements of expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (d) Satisfactorily measures had been taken by the management to rectify the issues highlighted in my previous year and report.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year under review amounted to Rs.29.22 million and the cumulative expenditure as at 31 December 2013 amounted to Rs. 3,248.12 million. The following statement shows a summary of the expenditure for the year under review.

<u>Category of expenditure</u>	<u>Expenditure for the year ended 31 December</u>		<u>Cumulative expenditure as at 31 December 2013</u>
	2013 Rs. Million	2012 Rs. Million	Rs. Million
Civil works	29.22	-	1,428.26
Advanced and Prepayment	-	-	0.29
	<u>29.22</u>	<u>95.15</u>	<u>3,248.12</u>

5. Audit Observations

5.1 Accounting Deficiencies

Action had not been taken to settle advances amounting to Rs.10,000 shown in the financial statements over 8 years.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain significant statistics relating to the financing had budgetary provisions for the year under review and the utilization of funds during the year under review are given below.

<u>Source</u>	<u>Amount agreed for financing in the loan facility agreement</u>		<u>Budgetary provision for the year 2013</u>	<u>Funds utilized during the year</u>		<u>Accumulated Funds Utilized up to 31 December 2013</u>	
	Kuwait Dinar Mn.	Rs. Mn.	Rs. Mn.	Kuwait Dinar Mn.	Rs. Mn.	Kuwait Dinar Mn.	Rs. Mn.
KFAED	5.10	1,728	29.50	0.064	29.22	3.52	1,586.32
GOSL	5.02	1,704	-	-	-	-	1,658.71
	<u>5.1</u>	<u>3,432</u>	<u>29.50</u>	<u>0.064</u>	<u>29.22</u>	<u>3.52</u>	<u>*3,245.03</u>

* This amount does not agree with the amount shown in paragraph 4.1 of this report as accrued express and other payables aggregating Rs.2,81 million had not been included.

5.2 Land Acquisition and Resettlement

The following observations are made.

- (a) The project had released a sum of Rs.277,576 to be divisional Secretary of Mawenella to pay compensation for lands acquired for construction of a bypass in Mawenella Town in 2002. It was observed in audit that the land owners had not been paid compensations by the Divisional Secretary after a lapse of 12 years as at 31 December 2013.

- (b) Further, compensations aggregating Rs.38,500 to be paid for other persons displaced due to activities of the Project had not been settled even after lapse of 13 years. The interest on delays thereon amounted Rs.35,451 as at 31 December 2013.

6.3 Physical Performance

According to the information furnished all 32 bridges and widening of the road sections had been completed as at 31 December 2012. However, unspent balance amount of Kuwait Dinnare 256,224 is equivalent Rs.86,813,815 remained in the work in progress account which allocated for the improvement of Galle- Deniyaya-Madampe Road.