

Miscellaneous Foreign Aided Project (Reconstruction of 46 bridges Under French Government Financial Package) - 2013

The audit of the financial statements of the Miscellaneous Foreign Aided Project (Reconstruction of 46 bridges Under French Government Financial Package) 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 signed between NATIXIS Bank of France on behalf of the Government of France and then Ministry of Finance and Planning of Sri Lanka.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Highways, Ports and Shipping presently, the Ministry of Highways, Higher Education and Investment Promotion is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is to supply and construction of 46 steel bridges in Sri Lanka. Total estimated cost of the Project is Rs.7,564 million equivalent to Euro 45.80 million and out of that Rs.3,642 million equivalent to Euro 22.05 million agreed to be financed by NATIXIS Bank of France. The activities of the Project were commenced on 19 July 2013 and expected to be completed by July 2015.

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 managements 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 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 identification 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. 1,263,379,106. The following statement shows a summary of the expenditure for the year under review.

Description -----	Expenditure incurred for the year ended 31 December 2013 ----- Rs. million
Research and Development Expenditure	19,177,746
Project Management Expenses	15,238,054
Construction Cost	<u>1,228,963,306</u>
	<u>1,263,379,106</u>

5. Audit Observations

5.1 Accounting Deficiency

The contribution amounting to Rs 187,300,000 received from the Government of Sri Lanka shown in the Statement of Expenditure of the Project for the year ended 31 December 2013 had not been agreed with the corresponding amount of Rs 180,800,000 shown in the Statement of Changes of Funds of the Project.

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 and the utilization of funds for the first accounting year under review are shown below.

<u>Source</u>	<u>Amount agreed to be provided in the Loan Agreement</u>		<u>Budgetary Provision for the year 2013</u>		<u>Utilization of Funds Up to 31 December 2013</u>	
	<u>EUR</u>	<u>Rs.</u>	<u>EUR</u>	<u>Rs.</u>	<u>EUR</u>	<u>Rs.</u>
	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>
Foreign Aid	22.05	3,642	3.00	514	3.00	514

GOSL	23.75	3,922	1.13	187	1.13	187
	-----	-----	-----	-----	-----	-----
Total	45.80	7,564	4.13	701	4.13	701*
	=====	=====	=====	=====	=====	=====

* This figure does not agree with the amount shown in paragraph 4.1 of the report as the payables at the yearend are not included.

6.2 Physical Performance

The Project had entered into a contract on 12 December 2012 with a foreign Company to supply of the components of the bridges at a cost of Euro 22.03 million. The following observations are made thereon.

- (a) According to the Clause 17 of the contract agreement, the bridge components along with all utility equipment should be supplied within 730 days and according to the work schedule, the components of 25 bridges were expected to be supplied during the year under review. However, the components for 08 bridges only had been supplied as at 31 December 2013.
- (b) According to the Condition of Contract, 15 Engineers were expected to be trained by the Project. However no such training facilities had been provided for them even up to 30 November 2014.

6.3 Contract Administration

The following observations are made.

- (a) The Project had awarded a contract for construction of the bridge No. 11/2 in Hanwella – Pugoda Road at a cost of Rs.59.74 million and the following observations are made thereon.
 - (i) The works included in the original BOQ ranging from 66 percent to 70 percent had been increased in five occasions resulting that estimated cost of the works increased by Rs.2,887,600.
 - (ii) According to the records made available, the construction works of the bridge had been substantially completed on 10 March 2014. However, construction works such as Asphalt layering, embankment filling, edge widening and turf works etc, at a cost of Rs.24,190,088 had been carried out upto 10 July 2014. Further, a sum of Rs.765,254 had also paid as price fluctuations on works carried out after the date of works substantially completed.
 - (iii) The site visits made by the auditors had revealed several defaults on rehabilitation works such as cracks of length about 3 metres on the road surface close to the bridge, pot holes larger than 5 square metres on the surface of the bridge and the foot path etc.

(b) Contract of the construction of the bridge_No 9/5 of Tawalama – Neluwa Batuwangala Road had been awarded to a contractor at a price of Rs.86,743,250. The matters observed during the cause of audit are as follows.

(i) Although the contractors had been paid a sum of Rs.1,080,000 to ensure safety measures action had not been taken by the contractor to supply safety equipments such as sign boards, barricade tapes, traffic controlling unit etc. and also to supply life saving equipment such as safety jackets, shoes, helmets etc., to the site workers.

(ii) Although of Rs.880,000 had been paid to the contractor to maintain a separate office for the Engineers of the Contractor for 11 month period , no such an office had been maintained by the contractor. Further, a sum of Rs.1,080,000 had been paid to the contractor to deploy a clerk and two watchers on full time basis for 11 months such officers had not been recruited and employed.

(iii) The amended work programs to catch up delays of 56 days caused at the commencement of the works had not been submitted by the Contractor.

(c) Contract for construction of the bridge No.48/2 of Hatton - Nuwaraeliya Road had been awarded at a cost of Rs.65,234,576 during the year under review and following observation are made thereon .

(i) Feasibility study had not been done before awarding of the contract.

(ii) The approval of the Environmental Authority or National Building Research Organization had not been received for the construction works eventhough a sum of Rs.7,603,239 had been spent by the Project thereon. The rehabilitation works had been abandoned subsequently due to warnings of the National Building Research Organization on possible earth slips. The contractor had made a claim of Rs. 2,018,418 as compensation on works abandoned. Further, balance of mobilization advances amounting to Rs.8,415,142 had remained outstanding due to early termination of the activities of the contract.

6.3 Matters in Contentious Nature

The following observations are made.

(a) The assets such as vehicles, equipment , furniture etc had been procured by the Contractor during the year under review, out of the proceeds of Loan are being used by the contractor for other construction activities, as the Project Monitoring Unit had not taken action to bring such assts to their custody and record the values and other details of the assets in the registers.

- (b) The Project had procured a 1300cc motor car with 05 seating capacity during the year under review eventhough the Clause No.7 of the specification indicated to procure a 2000cc Passenger Van with 07 seating capacity. However, agreed price of Rs.1,187,500 had been paid to the supplier without a proper reason for changing the specification .

- (c) Further, a vehicle procured by the contractor under the allocation amounting to Rs.2,100,200 made by the Project and expected to be used for the purposes of supervisory activities carried out by the Engineers of the contractor had been used by the Deputy Director of the Project.

- (d) Even though the post of Finance Manager had not been included in the cadre of the Project approved by the Department of Management Services, an acting allowances for the respective post amounting to Rs. 357,500 had been paid during the year under review to an officer of Implementing Agency. Further, the evidence for the records of attendance of the officer had not been received for audit.