

Construction of Manmunai Bridge - 2013

The audit of financial statements of the Project for Construction of Manmunai Bridge 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 read in conjunction with the Grant Agreement No. 1160700 dated 13 September 2011 entered into between the Government of the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Corporation Agency (JICA).

1.2 Execution, Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Project for construction of Manmunai Bridge, the Ministry of Highways, Ports and Shipping is the Executing Agency of the Project and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to construct a bridge to connect west and east of the lagoon at Manmunai. According to the Grant Agreement, the estimated total cost of the Project is Japanese Yen 1,206 million. The Project commenced its activities on 29 June 2012 and is scheduled to be completed by 15 May 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 tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide 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 examinations 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 controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the 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 Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operation of the Project, the identification of purchases made out of the Grant, etc.,
- (c) Whether withdrawals under the Grant had been made in accordance with the specification laid down in the Grant Agreement,
- (d) Whether funds, materials and equipment supplied under the Grant 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,
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether the financial covenants laid down in the Grant 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, I am of the 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) 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 Grant 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 year under review amounted to Rs.801,866,055 and the cumulative expenditure as at 31 December 2013 amounted to Rs 1,199,098,742. The following statement shows a summary of expenditure for the year under review, expenditure for the year 2012 and the cumulative expenditure as at 31 December 2013.

Category of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013 Rs.	2012 Rs.	Rs.
Non- Current Assets	29,868	--	29,868
Construction Cost	699,843,856	335,653,321	1,035,497,177
Consultancy Fees	85,456,642	61,402,392	146,859,034
Project Management Unit Expenditure	<u>16,535,689</u>	<u>176,974</u>	<u>16,712,663</u>
Total	<u>801,866,055</u>	<u>397,232,687</u>	<u>1,199,098,742</u>

5. Financial and Physical Performance

5.1. Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2013 are shown below.

Source	Amount agreed to be financed		Allocation made in the Annual Budget	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	Japanese Yen Mn	Rs. Mn.	Rs. Mn	Japanese Yen Mn	Rs. Mn	Japanese Yen Mn	Rs. Mn
Grant	1,206	1,865	850,982	357,704	463,291	596,784	850,982
GOSL	-	397	25,606	-	25,606	-	25,606
Total	<u>1,206</u>	<u>2,262</u>	<u>876,588</u>	<u>357,704</u>	<u>488,897</u>	<u>596,784</u>	<u>*876,588</u>

* This amount differs from the amount shown in paragraph 4.1 of this report due to exclusion of advances, and accrued expenditure.

5.2. **Physical Performance**

The following observations are made.

- a) Even though it is a very essential to provide street lighting along the Manmunai Bridge, no provision had been made in the Bill of Quantities for providing lighting system. Subsequently, the Project had recognized the need and awarded the contract in this regard after completion of the construction works and paid a sum of Rs.1,174,864 as advance using Government of Sri Lanka Funds. If the Project had identified this need at initial stage, the unutilized fund balance amounting to Rs.324,722,028 returned to the Donor Agency could have been utilized for this purpose.

- b) The high flood level (HFL) at Manmunai was considered as 1.42 meters for the construction of Manmunei Bridge, on the basis of the high flood level considered for the construction of Kallady Bridge without carrying out a separate feasibility study thereon. Subsequently, it was reported that the high flood level of 1.60 meters had been revealed according to the floods experienced at Manmunai in 2012. Accordingly, the possibility of inundation of the entire bridge during future floods seasons cannot be ruled out in audit. In this regard, the Project Director informed me that construction of bridges for rarely occurring high flood level is economically not viable.