

## **Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2014**

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The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) for the year ended 31 December 2014 was carried out under my direction in pursuance of provision in Article 154 (1) of the Constitution of Democratic Socialist Republic of Sri Lanka. This Project is implemented under the Loan Agreement No.SL-P 108 dated 14 March 2013 entered into between the Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka.

### **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, the Ministry of University Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to improve the National Road Network by constructing major bridges on the national roads, thereby contributing to economic development. The estimated total cost of the Project is Japan Yen 16,132 million equivalent to Rs.27,249 million and the Japan International Corporation Agency had agreed to provide Japan Yen 12,381 million equivalent to Rs.20,913 million for the Project. The balance of Rs.6,336 million will be provided by the Government of Sri Lanka. The Project commenced its activities in March 2013 and scheduled to be completed by 2019.

### **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 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 judgement, 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 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 the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) 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 the 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 the matters referred to 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 Generally Accepted Accounting Principles.
- (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 Deficiencies**

The following observations are made.

- (a) A sum of Rs.101,674 incurred in connection with the activities which were not related with the activities of the Project had been charged as the operational expenses of the Project.
- (b) A special loan received from the Road Development Authority amounting to Rs.85 million during the year under review had been accounted as funds received from Government of Sri Lanka.
- (c) Overhead expenses amounting to Rs.38.80 million related to other 05 Projects handled by Special Project Unit of the Road Development Authority had been charged as operating expenses of the Project.
- (d) Provision for gratuity amounting to Rs.835,192 made for the employees of the Road Development Authority who were released for the activities of the Project had been overstated by Rs.303,514 due to computation of provisions for entire period of their services including the period of service at the Road Development Authority.

## 2.2.2 Un-reconciled Balances

The following observations are made.

- (a) According to the Appropriation Account of the Line Ministry for 2014, the total capital expenditure of the Project for the year under review had been shown as Rs.45.90 million. However, it was shown as Rs.46.10 million in the financial statements of the Project.
- (b) Even though a sum of Rs. 1.95 million had been transferred by the Project to another Project called Re – Construction of 25 Bridges Project, no balances had been shown in the financial statements of that Project, as payable.

## 2.2.3 Non - Compliance with Laws, Rules and Regulations

The following observations are made.

- (a) A sum of Rs.1.52 million had been remitted to Road Development Authority up to 31 December 2014 by the Project as overhead charges contrary to the instructions of the Section 8.3.9 of the Circular No. PED/12 dated 02 June 2003 issued by the Department of Public Enterprises of the General Treasury.
- (b) Allowances aggregating Rs.3.55 million had been paid to the Project staff contrary to the instructions given in the Circular No.33 dated 07 April 2007 of the Department of Management Services.

## 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	<u>Funds utilized</u>			
	Japan Yen	Rs.		during the year 2014		as at 31 December 2014	
	million	million	million	million	million	million	million
JICA	12,381	20,913	227.72	203.61	221.79	208.53	227.15
GOSL	3,751	6,336	45.94	42.32	46.09	49.26	53.66
	<b>16,132</b>	<b>27,249</b>	<b>273.66</b>	<b>245.93</b>	<b>267.88</b>	<b>257.79</b>	<b>280.81</b>

### **3.2 Physical Progress**

According to the information received, detailed designs of the bridges had been carried out during the year under review. Civil work contracts for the construction of 10 bridges had been awarded only on 30 December 2014.

### **3.3 Contract Administration**

The following observations were made.

- (a) According to the Clause No.03 of the Terms of Reference in the consultancy agreement, all the surveys and investigations should be done by the Consultant. However, it was observed that some of the investigations and surveys had been done by external parties and paid a sum of Rs.23.14 million by the Project.
- (b) According to the Clause No.6.5 (c) of General Condition of the consultancy agreement, all the invoices of the consultancy service should be provided with necessary supporting documents, whereas a sum of Rs.29.97 million paid without necessary supporting documents for the consultancy services provided.

### **3.4 Human Resources Management.**

The staff of the Project office had comprised with 31 members at the end of the year under review even though 62 carder positions had been approved by the Department of Management Services. However, 40 vacancies for the posts such as 02 Chief Engineers, 07 Project engineers, 05 Technical Engineers were remained unfilled at the end of the year under review. Further, 09 employees including 01 Assistant Accountant, 04 Management Assistant, 03 Light Equipment Operator had been deployed and paid Rs.4.09 million by the Project and such positions which were not approved by the Department of Management Services.