

Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges Under French Government Financial Package) - 2014

The audit of financial statements of the Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges Under French Government Financial package) for the year ended 31 December 2014 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. B 920 A1 dated 05 November 2012 entered into between the NATIXIS Bank of France on behalf of the Government of France and the Ministry of Finance and Planning 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 Higher 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 supply and construction of 46 steel bridges in Sri Lanka. As per the Loan Agreement the estimated total cost of the Project was Euro 45.80 million equivalent to Rs.7,564 million and out of that Euro 22.05 million equivalent to Rs.3,642 million agreed to be financed by NATIXIS Bank of France. The activities of the Project were commenced on 17 July 2013 and expected to be completed on 17 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 Sri Lanka Public Sector Accounting Standards 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 Sri Lanka Public Sector Accounting Standards,
- (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 Sri Lanka Public Sector Accounting Standards.
- (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 Deficiency

The value of work done amounting Rs.32.89 million as at 31 December 2014 approved under 04 Interim Payment Certificates had not been brought to Work- in-Progress Account.

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>			
	Euro million	Rs. million		Rs. million	during the year 2014		up to 31 December 2014
Government of France	22.05	3,642	2,318	14.68	2,318	17.93	2,832
Government of Sri Lanka	23.75	3,922	924	2.98	470	4.12	651
	<u>45.80</u>	<u>7,564</u>	<u>3,242</u>	<u>17.66</u>	<u>2,788</u>	<u>22.05</u>	<u>3,483</u>

3.2 Physical Progress

The Project had entered into a Contract Agreement with a foreign company on 12 December 2012 to supply of the components of the bridges valued at Euro 22.05 million and the construction works of the bridges had been commenced on 19 July 2013. According to the Clause 17 of the Contract Agreement, the bridge components along with all utility equipment should be supplied within 730 days. However, after lapse of 545 days from the commencement of the activities of the Project, components of 25 bridges including utility equipments had only been supplied and out of that construction works of 20 bridges had been completed as at 31 December 2014.

3.3 Contract Administration

The following observations are made.

- (a) According to the Contract Agreement, the contractor is required to carry out geological, hydrological and topographic surveys, detailed designing and constructions of substructures of the Bridge No. 1/1 of Kirindiwita - Assennawatte Road. However, the detailed designs of that Bridge had been carried out by the Bridge Design Division of the Road Development Authority and a sum of Rs 621,281 had been spent thereon. Action had not been taken to recover the cost from the Contractor.
- (b) The Testing Reports Registers had not been maintained by the Project and the quality tests reports on construction of following bridges had not been made available for audit.
 - (i) Bridge No. 2/8 of Matale –Illukkubura Road
 - (ii) Bridge No 9/8 of Matale –Illukkubura – Pallegama Road
 - (iii) Bridge No 28/2 of Wattedegama- Kandenuwara-Wariyapola Road
 - (iv) Bride No.12/3 of Dambagahapitiya- Pinnagolla-Arawa Meegahakiula Road

Further, the quality tests reports required to be attached with the Engineer's Certificate as enable to prove the achievement of comprehensive strength of the concrete used for the bridge construction works had not been attached.

- (c) The testing for comprehensive strength of concrete of Bridge No. 17/5 Badulla- Karametiya- Andaulpatha Road had been done at the laboratory owned to the contractor instead of obtaining reports on such tests from an independent party.

3.4 Matters in Contentious Nature

The following observations are made.

- (a) Overhead charges amounting to Rs.978,351 and Medical Leave encashment for the employees of the Road Development Authority amounting to Rs.191,378 had been remitted to the Road Development Authority during the year under review, contrary to the paragraphs 8.3.9 and 8.6 of the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises.
- (b) Advertisement charges amounting to Rs.2.31 million had been incurred by the Project for the opening ceremony of the Bridge No 32/2 of Negombo- Giriulla Road constructed at a cost of Rs 81.56 million.
- (c) The Term of Reference of 02 Consultants who deployed by the Project without an approval of the Department of Management Services had not been made available for audit eventhough the remuneration aggregating Rs.2.10 million had been paid by the Project.
- (d) Further, acting allowances for the post of Project Accountant amounting to Rs.206,547 had been paid up to May 2014 to the Director, Finance of the Road Development Authority.

3.5 Human Resources Management

The staff of the Project had comprised with 18 members at the end of the year under review eventhough 33 carder positions had been approved by the Department of Management Services. The vacancies for the posts including key posts such as 02 Senior Engineers, 05 Technical officers and 07 Engineers had remained unfilled at the end of the year under review. Further, 05 employees including 04 Consultants, a Technical Assistant and a Light Equipment Operator had been deployed and paid Rs.2.26 million by the Project without the required approval of the Department of Management Services.