

## **Kuwait Funded Bridges Reconstruction and Rehabilitation Project - 2015**

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The audit of financial statements of the Kuwait Funded Bridges Reconstruction and Rehabilitation Project for the year ended 31 December 2015 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 Loan Agreement No. 466 and No.627 dated 27 March 1995 and 03 September 2001 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreements of the Project, then the Ministry of Highways, Ports and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority 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. As per the Loan Agreement, the estimated total cost of the Project was Kuwait Dinar 10.12 million equivalent to Rs.3,432 million and out of that Kuwait Dinar 5.10 million equivalent to Rs.1,728.2 million was agreed to provide by the Kuwait Fund for Arab Economic Development. The Project commenced its activities on 27 March 1995 and scheduled to be completed within 33 months by 31 December 1997. However, period of Project had been extended by another 19 years in 10 instances up to 24 March 2016.

### **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 judgment, including the assessment of the risk of material misstatements 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 equipment 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 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) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

### 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 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	KD million	Rs. million		Rs. million	during the year under review		as at 31 December 2015
	KD million	Rs. million	Rs. million	KD million	Rs. million	KD million	Rs. million
Kuwait Fund	5.10	1,728	44.03	0.098	44.03	3.78	1,667.79
GOSL	5.02	1,704	17.75	-	17.20	-	1,686.51
	<u>10.12</u>	<u>3,432</u>	<u>61.78</u>	<u>0.098</u>	<u>61.23</u>	<u>3.78</u>	<u>3,354.30</u>

According to the above information, the Project had utilized Kuwait Dinar 3.78 million only, representing 74.12 per cent of the allocation of Kuwait Dinar 5.10 million, even though the period of the Project was extended up to 24 March 2016. Thus it evidenced that the Project had not prepared and implemented proper physical and financial plans for maximum utilization of funds allocated by Project.

#### 3.2 Physical Progress

According to the information made available, the activities of the Project had included rehabilitation, reconstruction and replacement of 32 narrow and weak bridges in the national roads and the widening of Gatembe-Gannoruwa Road and such works were completed in April 2011. Further, the reconstruction of 03 bridges on Galle- Deniyaya- Madampe Road had been carried out by the Project by utilizing savings of Kuwait Dinar 256,224 on works carried out initially. According to the progress reports of the Project, such construction works were completed even as at 31 December 2014 even though the period of the Project was extended up to 24 March 2016.

#### 3.3 Contract Administration

The site visits made by the auditors on 22 September 2016 at Galle-Deniyaya Road had revealed that the expansion joints of the both ends of the Bridges No. 1/3, No. 2/1 and No. 51/1 of the Road had not been properly asphalted. Further, gaps were appeared between drain wall and capping beam of No.1/3 Bridge at Galle end and capping beam and retaining wall of No.2/1 Bridge at Deniyaya end of the Road. The gabion wall at Bridge No 51/1 had also not been constructed in proper manners and damaged at point at Deniyaya end of the Bridge.

### **3.4 Fruitless Transactions**

The following observations were made.

- (a) Interest amounting to Rs. 69 million had been paid by the Project for delays on settling compensation on land acquisitions.
- (b) A sum of Rs.5.9 million spent on an opening ceremony during the year under review was not directly related to achieve the objectives of the Project.