

Reconstruction of Kochchikade Bridge Project -2016

The audit of financial statements of the Reconstruction of Kochchikade Bridge Project for the first accounting year ended 31 December 2016 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 a Credit Agreement dated 13 January 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Raiffeisen Bank International AG of Austria.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Agreement of the Project, the Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to replace existing Kochchikade Bridge over Ma-oya which is structurally weak and unsuitable for vehicle movements and to provide substantial contribution to keep up the highway infrastructure connecting Peliyagoda and Puttalam. The estimated total cost of the Project amounted to EURO 10.85 million equivalent to Rs.1,735.62 million and out of that EURO 8.70 million equivalent to Rs.1,392 million was agreed to be financed by Raiffeisen Bank International AG of Austria. The Project had commenced its activities on 24 July 2016 and scheduled to be completed by 24 January 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 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 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 the 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 identification 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 Credit 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, and
- h) Whether financial covenants laid down in the Credit Agreement had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Credit Agreement, and

(d) the financial covenants laid down in the Credit 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 up to 31 December 2016 are shown below.

Source	Amount agreed for		Allocation made in the Budget Estimate for the year under review	Funds utilized up to 31 December 2016	
	financing in the Credit Agreement				
-----	EURO million	Rs. million	Rs. million	EURO million	Rs. million
Raiffeisen Bank	8.70	1,392.00	380	2.39	380
GOSL	2.15	343.62	140	0.74	114
Total	<u>10.85</u>	<u>1,735.62</u>	<u>520</u>	<u>3.13</u>	<u>494</u>

3.2 Physical Progress

According to the information received, the designing works of the Bridge No.38/3 of Peliyagoda – Puttalam Road over Ma- oya had been completed and the construction contract had been awarded to an Austrian Company at a cost of Euro 8.70 million equivalent to Rs. 1,392 million, as an unsolicited contract. The bridge construction works were not commenced as at 31 December 2016, eventhough the contractor had undertaken the site.