

## **Regional Bridge Project II Using British Government Financial Assistance (UK Steel Bridges Project) - 2016**

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The audit of financial statements of the Regional Bridge Project II using British Government Financial Assistance (UK Steel Bridges Project) for the 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 read in conjunction with Article 1 of Loan Agreement No. 53M/FC/1448(201327/SL) dated 21 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Hong Kong and Shanghai Banking Corporation Limited (HSBC).

### **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 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 designing, surveying and supplying of steel material and construction of 104 rural bridges and providing technical assistance and trainings thereon to the staff of the Road Development Authority. For the above mentioned purpose, a contract agreement had been entered with a foreign company on 26 April 2012 by the Road Development Authority. As per the Loan Agreement, the estimated total cost of the Project amounted to Sterling Pound 56.50 million (US\$ 88.72 million) equivalent to Rs.12,275.13 million and out of that Sterling Pound 45 million (US\$ 70.65 million) equivalent to Rs. 9,775.13 million was agreed to be provided by the Hong Kong and Shanghai Banking Corporation Limited. The Project commenced its activities on 19 September 2013 and scheduled to be completed by 18 September 2017.

### **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 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 the 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.

## **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 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

A sum of Rs. 88.92 million payable to the contractors as at 31 December 2016 on civil works, shifting of electricity lines and constructing road signs etc, had not been brought to the financial statements.

## 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 2016 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year under review	as at 31 December 2016		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
HSBC	70.65	9,775.13	1,050.00	7.01	1,012.97	67.73	8,995.72
GOSL	18.07	2,500.00	580.00	3.50	531.00	11.12	1,644.93
<b>Total</b>	<b><u>88.72</u></b>	<b><u>12,275.13</u></b>	<b><u>1,630.00</u></b>	<b><u>10.51</u></b>	<b><u>1,543.97</u></b>	<b><u>78.85</u></b>	<b><u>10,640.65</u></b>

### 3.2 Physical Progress

According to the information received, the scope of the works under the contract for surveying, designing, providing technical support and training and supplying of material for 104 rural bridges with the length of 3,077.90 metres signed with a foreign company at a cost of Sterling Pound 45 million (US\$ 70.65 million) equivalent to Rs. 9,778.05 million had been changed in 07 instances upto 31 December 2016 and therefore, the steel materials to construct 80 bridges with the length of 3,142 metres including 16 bypass bridges and 02 composite bridges were agreed to be supplied. Out of that, the construction works of 66 bridges including 16 bypass bridges and a composite bridge had been completed as at 31 December 2016.

### 3.3 Contract Administration

The following observations are made.

- (a) The construction works of a bridge at Kaluaggala in Colombo district had been abandoned halfway during the year under review due to contractor's failures. It was observed that a sum of Rs. 45.78 million including the cost of Rs.15.51 million of superstructure supplied had been spent at the time of termination of works. In

addition, the construction works of other bridge across the Kumbukan Aru in Polonnaruwa district had also been abandoned and decided to construct as a concrete bridge. The mobilization advances made thereon to the contractor amounting to Rs. 3.04 million had remained outstanding as at 31 December 2016.

- (b) It was observed that Extension of Time ranging from 31 days to 453 days had been granted for 34 contracts by the Project as at 31 December 2016. Out of that, time extensions for 14 contracts had been granted due to several reasons such as changes of designs, scope of the works, extra works and non-availability of materials and other inputs etc, which could be minimized by the Project.
- (c) According to the information received from the Project Monitoring Unit, the designing works of 49 permanent bridges, out of 65 permanent bridges had been carried out by the Bridge Design Office of the Road Development Authority and a sum of Rs. 9.24 million had been paid thereon as at 31 December 2016, eventhough the designing works of such bridges are required to be carried out by the foreign company, as per the contract agreement signed.

#### **3.4 Issues on Financial Control**

An allocation amounting to Rs. 327 million made in 2014 by the Road Development Authority, out of a Loan obtained from National Savings Bank had been shown as payable in the financial statements as at 31 December 2016, eventhough no any arrangement made to settle the balance.

#### **3.5 Human Resources Management**

It was observed that 05 Consultants and 04 Public Liaison Officers had been deployed by the Project, eventhough no approval was received thereon from the Department of Management Services. Salaries and travelling allowances aggregating Rs. 2.03 million had been paid during the year under review to the respective officers.