

Kuwait Funded Bridges Reconstruction and Rehabilitation Project - 2016

The audit of financial statements of the Kuwait Funded Bridges Reconstruction and Rehabilitation 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 Loan Agreements No. 466 of 27 March 1995 and No.627 of 03 September 2001 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development(KFAED).

1.2 Implementation, Objectives, Funding and Duration of the Project.

According to the Loan Agreements of the Project, then 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. The Project also aims at improving road safety, through the rehabilitation, reconstruction or replacement of narrow and weak 32 bridges and the widening of the Gatembe-Gannoruwa Road. As per the Loan Agreement, the estimated total cost of the Project amounted to Kuwait Dinnar 10.12 million equivalent to Rs.3,432 million and out of that Kuwait Dinnar 5.10 million equivalent to Rs.1,728 million was agreed to be provided 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. Subsequently, the period of the Project had been extended by another 19 years in 10 instances up to 24 March 2016. However, the financial statements for the year ended 31 December 2016 had been submitted for audit.

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 Loans, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loans 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 Agreements 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 Loan Agreements.
- (d) 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 Agreements 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 2016 are shown below.

Source	Amount agreed to be financed according to the Loan Agreements		Allocation made in the Budget Estimates for the year under review	Funds utilized			
	during the year under review	as at 31 December 2016		during the year under review	as at 31 December 2016	during the year under review	as at 31 December 2016
	KD	Rs.	Rs.	KD	Rs.	KD	Rs.
	million	million	million	million	million	million	million
KFAED	5.10	1,728	3.11	0.009	3.10	3.79	1,670
GOSL	<u>5.02</u>	<u>1,704</u>	<u>2.25</u>	<u>-</u>	<u>2.25</u>	<u>-</u>	<u>1,688</u>
	<u>10.12</u>	<u>3,432</u>	<u>5.36</u>	<u>0.009</u>	<u>5.35</u>	<u>3.79</u>	<u>3,358</u>

3.2 Physical Progress

According to the information available, the rehabilitation, reconstruction or replacement activities of 32 narrow and weak bridges and widening of the Gatembe - Gannoruwa Road had been completed as at 31 December 2015. However, reconstruction works of 03 bridges in Galle-Deniyaya-Madampe Road had been carried out during the year under review by utilizing an unspent balance of the Loan of Kuwait Dinnar 256,224 equivalent to Rs 115.30 million.

3.3 Uneconomic Transactions

The following observations are made.

- (a) It was observed in audit that the interest aggregating Rs. 69.23 million had been spent up to 31 December 2016 by the Project on delays in settling of compensation on plots of land acquired.
- (b) It was observed that a sum of Rs.5.90 million had been spent by the Project for the purpose of opening ceremonies during the period of the Project, even though it was not directly related to achieve the objectives of the Project. Further, the supporting documents for the above expenditure were not made available to audit.

3.4 Closure of the Activities of the Project

Even though the activities of the Project had been completed as at 31 December 2016, the Executing Agency had not taken action to instruct the Project Monitoring Unit to transfer the assets and liabilities to the Implementing Agency and close the activities of the Project.