

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2016

The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) for the year ended 31 December 2016 was carried out under my direction in pursuance of provision in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented under a Loan Agreement No.SL-P 108 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highways 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 improve the National Road Network by constructing major bridges on the national roads, there by contributing to economic development. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 16,132 million equivalent to Rs.27,250 million and out of that Japan Yen 12,381 million equivalent to Rs.20,914 million was agreed to be provided by the Japan International Corporation Agency. The Project commenced its activities on March 2013 and scheduled to be completed by July 2018.

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.

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 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 Deficiency

The mobilization advances aggregating to Rs. 382 million had been overstated by Rs. 04 million, as the adjustment for exchange loss was not made.

2.2.2 Un-reconciled Balances

The following observations are made.

- (a) The balance of Rs.1.42 million receivable and shown in the inter current account maintained by the Project with the Reconstruction of 25 Bridges Project had not been agreed with the corresponding payable balance of Rs. 669,195 shown in the inter current account maintained by the said Project.
- (b) Receivable balances aggregating Rs.74.66 million from 03 Donor Funded Projects namely Intelligent Transport System Project, Pro- poor Eastern Infrastructure Development Project and Construction of Manmunai Project which activities were closed as at 31 December 2015 had remained outstanding even as at 31 December 2016, eventhough the recoverability of the balances is in doubt.

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 as per the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	Yen million	Rs. million		during the year 2016		up to 31 December 2016	
	Yen million	Rs. million	Rs. million	Yen million	Rs. million	Yen million	Rs. million
JICA	12,381	20,914	2,150	1,629.70	2,163.11	3,671.48	4,488.97
GOSL	3,751	6,336	205	95.04	120.24	180.76	228.68
Total	<u>16,132</u>	<u>27,250</u>	<u>2,355</u>	<u>1,724.74</u>	<u>2,283.35</u>	<u>3,852.24</u>	<u>4,717.65</u>

It was observed that only Japan Yen 3,671.48 million equivalent to Rs. 4,488.97 million had been utilized as at 31 December 2016 representing 29.65 per cent of the allocation of Japan Yen 12,381 million equivalent to Rs. 20,914 million made by the Lending Agency for reconstruction purposes. Further, the commitment charges amounting to Rs.13.76 million had been recovered by the Lending Agency during the year under review on undisbursed balance of the Loan. It was observed that the comprehensive overall plan with clearly identified responsibilities of the core staff and physical and financial targets etc had not been prepared by the Project.

3.2 Physical Progress

According to the Project documents, reconstruction works of 37 major bridges in 05 provinces were expected to be carried out by the Project. Therefore, the contracts for reconstruction works of 37 bridges had been arranged to award under 05 contract packages. Out of that only 02 contract packages for the reconstruction works of the bridges located in the Southern and Northern Provinces had been awarded as at 31 December 2016 at an estimated cost of Japan Yen 5,666 million equivalent to Rs.7,098 million and Japan Yen 3,126 million equivalent to Rs.3,785 million respectively. The physical progress of reconstruction works of 10 major bridges in Galle and Matara districts in the Southern Province commenced on 20 March 2015 had remained at 73.19 per cent only compared with the expected progress of 90.37 per cent as at 31 December 2016. Further, the reconstruction works of 08 major bridges in Jaffna, Kilinochchi and Mannar districts in the Northern Province had been awarded with delays over 02 years on 24 November 2016 and the reconstruction works of such bridges had not been commenced even as at 31 December 2016.

3.3 Contract Administration

The following observations are made on the bridge reconstructions works carried-out in the Southern Province.

- (a) It was observed that the reconstruction works of Polwatta Bridge, Koledanda Bridge and Kihimbiela Bridge had been completed with delays of period ranging from 18 days to 73 days.
- (b) The Engineer's Estimate of Rs.7,098.09 million of the reconstruction works of 10 Bridges in Galle, Matara districts had been increased up to Rs.7,112.80 million due to variations of the detailed designs made in 19 instances. Thus, it indicated that the Project had not carried out proper detailed engineering studies before preparing of Bill of Quantities.
- (c) The contract on reconstruction works of Polathumodara Bridge in Galle district awarded at an estimated cost of Rs. 80.71 million had been suspended as the structure was sunk after completing the works valued at Rs. 17.69 million. Therefore, the Project had to spend an additional sum of Rs. 32.29 million to design a new Bridge.
- (d) The allocation amounting to Rs.34.47 million made in the original Bill of Quantities for street lighting purposes of bridges located in the Galle and Matara districts had been eliminated subsequently, without considering the safety of the road users.
- (e) The Project had cancelled the reconstruction works of 09 bridges in Kegalle, Ratnapura and Kurunegala districts in the Sabaragamuwa Province which initially identified as the bridges to be reconstructed and replaced by other 09 bridges. Therefore, a sum of Rs.1.27 million paid to the Consultants for designing of bridges which originally selected was become fruitless.

3.4 Lands Acquisition and Resettlement Activities of the Project

The compensation amounting to Rs. 71.55 million had been paid only for 07 plots of lands under Section 17 of the Land Acquisition Act, out of 310 plots of lands in 05 Divisional Secretariat areas in the Southern Province scheduled to be acquired and completed the land acquisition process before 20 March 2015. Further, 02 plots of land had not handed over to the contractor until the end of April 2017, eventhough compensation amounting to Rs. 14.63 million had been paid to the owners of respective lands. Further, delays in relocation of utility services had affected to continue the reconstruction works, eventhough a sum of Rs. 3.57 million had been paid thereon to the respective parties.

3.5 Human Resources Management

The staff of the Project had comprised with 32 officers at the end of the year under review, out of 62 cadre positions had been approved by the Department of Management Services. It was observed that 39 posts including 03 Chief Engineers, 06 Project Engineers, 09 Technical Officers were remained vacant at the end of the year under review and it affected to the smooth operations of the activities of the Project. Further, 09 persons including 03 Light Equipment Operators and 04 Management Assistant which were not remained in the approved cadre had been deployed and paid a sum of Rs.4.24 million during the year under review.