

## **New Bridge Construction Project over the Kelani River - 2017**

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The audit of financial statements of the New Bridge Construction Project over the Kelani River for the year ended 31 December 2017 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 01 of Loan Agreement No. SL – P III dated 28 March 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Corporation Agency (JICA).

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

According to the Loan Agreement of the Project, then the Ministry of Ports, Highways and Shipping, presently Ministry of Highways and Road Development is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to mitigate and disperse traffic congestion by constructing a new bridge across the Kelani River as a high mobility link, there by contributing to the improvement of transportation network in Colombo City and promoting economic development. As per the Loan Agreement, the estimated total cost of the Project was Japanese Yen 46,446 million equivalents to Rs.34,788 million and out of that Japan Yen 35,020 million equivalent to Rs.26,230 million was agreed to be provided by the Japan International Corporation Agency. The Project commenced its activities on 01 July 2014 and scheduled to be completed by 01 July 2023.

### **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, the progress of the Project in financial and physical terms, and the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan,
- (d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (e) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (f) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (g) 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 Non - Compliance with Laws, Rules and Regulations**

As per the Government Procurement Guideline No. 4.2.1, a Procurement Plan is required to be prepared for 03 years period and up-dated semi annually. However, the Project had prepared a Procurement Plan for one year period and no action had been taken to update the Plan.

### 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 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Annual Estimates for the year under review	Funds utilized during the year under review as at 31 December 2017			
	Japan Yen million	Rs. million	Rs. million	Japan Yen million	Rs. million	Japan Yen million	Rs. million
JICA	35,020	26,230	8,000	5,554.24	7,390.47	7,005.43	9,151.88
GOSL	11,426	8,558	750	469.64	624.90	1,088.75	1,435.93
	<u>46,446</u>	<u>34,788</u>	<u>8,750</u>	<u>6,023.88</u>	<u>8,015.37</u>	<u>8,094.18</u>	<u>10,587.81</u>

In addition to the above mentioned proceeds from foreign loan and contribution of the Government of Sri Lanka, the Project had invested a sum of Rs.285.49 million, out of a loan obtained by the Road Development Authority from a local Bank to carry out the activities of the Project.

#### 3.2 Physical Progress

According to the information received, the activities of the Project including detailed designing of the Bridge, relocation of electricity transmission line, construction of buildings of the Sri Lanka Auto Mobile Training Institute and the Sri Lanka Atomic Energy Authority for relocation purposes. Out of that, the Bridge designing works and building construction works for Sri Lanka Auto Mobile Training Institute were remained in progress as at 31 December 2017, according to the scheduled targets. However, the progress of works related to conversion of existing overhead high voltage transmission lines had shown slow progress of 20 per cent as at 31 December 2017. Further, the construction works of the buildings for Sri Lanka Atomic Energy Authority at Halbarawa in Homagama had been suspended due to protest of the people living in the area.

#### 3.3 Uneconomic Transaction

As mentioned above, the Project had taken action to shift the Sri Lanka Atomic Energy Authority to Halbarawa by constructing required buildings. However, the location of the buildings had been changed subsequently and decided to construct it at Orugodawaththa. A sum of Rs.34 million spent for laying of foundations and filing works etc at Halbarawa become fruitless.

#### 3.4 Land Acquisition Activities

According to the Land Acquisition Plan, 948 plots of land were scheduled to be acquired and out of that only 650 plots of land had been acquired as at 31 December 2017. Further, the compensation amounting to Rs.714 million and interest of Rs.44.51 million thereon had been paid as at that date.