

Reconstruction of Kochchikade Bridge Project - 2017

The audit of financial statements of the Reconstruction of Kochchikade Bridge Project 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. This Project is implemented under a Loan 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 Loan Agreement of the Project, then Ministry of Higher Education and Highways presently, the Ministry of Highways and Road Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is the replacement of existing Bridge No.38/3 of Peliyagoda – Puttalam Road at Kochchikade which structurally weak and unsuitable to bear the traffic volume to provide substantial contribution to keep up the highway infrastructure connecting to Peliyagoda and Puttalam. The estimated total cost of the Project amounted to EURO 10.85 million equivalents 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 Scope of Audit

The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation of financial statements. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. The examination also included such tests of systems and controls, transactions, assets, liabilities and accounting records 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 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, 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 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 and
- (b) the funds provided had been utilized for the purposes for which they were provided.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) According to the Project documents, 35 per cent of the total allocation made by the Lending Agency is required to be treated as a grant. However, the action had not been

taken by the Project to identify and segregated the grants received and shown in the financial statements

- (b) The works done valued at Rs.1.51 million as at 31 December 2017 had not been brought to account and as a result, the values shown under the work- in- progress and payables to the contractor had been understated by that amount.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, 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 Budget Estimate for the year under review	Funds utilized during the year under review up to 31 December 2017			
	EURO million	Rs. million		Rs. million	EURO million	Rs. million	EURO million
Raiffeisen Bank	8.70	1,392.00	1,360.00	3.92	627.73	6.31	1,007.41
GOSL	2.15	343.62	40.00	0.13	20.45	0.87	134.45
	<u>10.85</u>	<u>1,735.62</u>	<u>1,400.00</u>	<u>4.05</u>	<u>648.18</u>	<u>7.18</u>	<u>1,141.86</u>

3.2 Physical Progress

According to the information made available, 65 per cent of the construction works of the Bridge had been completed as at 31 December 2017, under the turn key contract awarded to the Austrian contractor selected in unsolicited manner. It was observed that only 60 per cent of the construction works were targeted to be achieved at the end of the year under review. However, the details to be provided under the sections (c) and (e) of the contract agreement had not been included in the progress reports submitted by the contractor.

3.3 Contract Administration

Eventhough it was decided to construct the new Bridge at the different location from the existing bridge, no feasibility studies thereon had been carried out to determine the suitability of the land for the purpose, type of the Bridge and number of lanes etc.

3.4 Land Acquisition Activities of the Project

It was observed that, the Project had acquired 09 plots of land for the construction of the Bridge and compensation amounting to Rs.103.40 million and interest amounting to Rs.11.90 million had been paid as at 31 December 2017. However, the ownerships of the plots of the land had not been transferred even as at that date, under Section 44 of the Land Acquisition Act.