

Reconstruction of 25 Bridges Project - 2019

The audit of financial statements of the Reconstruction of 25 Bridges Project for the year ended 31 December 2019 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 the Loan Agreement No. 886 dated 30 January 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development. My comments and observations which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

s and Shipping presently, Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to reconstruct 25 bridges with two lanes with pedestrian shoulders in the Western, Sabaragamuwa, Eastern, Southern, North Western, Central, Northern Provinces to meet the increasing demand for the transport of passengers and goods and contribute to the economic and social development of the respective areas by reducing the vehicle operations and road maintenance cost, travel time and accidents. The activities of the Project are implemented under three components namely package 01, 02 and 03. As per the Loan Agreement, the estimated total cost of the Project was US\$ 35.41 million equivalent to Rs 4,632 million was agreed to be financed by The Kuwait Fund for Arab Economic Development. The Project had commenced its activities on 07 September 2015 and scheduled to be completed by 05 September 2017. However, the date of completion of the activities of the Project had been extended up to 31 December 2019.

1.3 Qualified Opinion

for the effects of the matters described in the table 2 of my reports the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal

control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	The cost of Bridges handed over to the Road Development Authority had not been identified separately and shown in the financial statements for the year under review.	618.28	We will take appropriate actions to show the direct cost of bridges handed over to RDA separately in the financial statements.	The cost of bridges handed over to the Road Development Authority should be shown separately in the financial statements.
(b)	The assets purchased for the use of the Planning Division of the RDA had been shown under the property, plant and equipment without being shown under the work- in-progress of the project as at 31 December 2019. Therefore, the assets of the project had been overstated by that amount.	15.48	Agreed, actions will be taken to remove the cost of assets from the Property, Plant and Equipment's which were transferred to RDA and separately shown in the Financial Statements.	The cost of the transferred assets to RDA should be shown separately in the financial statements.
(c)	Payment made relevant to the Major Bridges construction project had been identified under the work in progress by the project.	10	Agreed, this error will be rectified in financial statements.	Action should be taken to remove this amount from work in progress

3. Physical Performance

3.1 Physical progress of the activities of the Project

The project is funded by Kuwait Fund for Arab Economic Development (KFAED) is mainly divided into 03 packages. Eight bridges had been included in the package 01 with a contract

cost of Rs. 987 million that had been commenced on 07 September 2015 and scheduled to be completed by 06 September 2017. However, first and second extension of time had been granted by the project until 10 April 2018 and 19 November 2019 respectively.

3.2 Payments made out of the Project objectives

Audit Issue	Response of the Management	Auditor's Recommendation
<p>The compensation payment amounting to Rs. 10.014 million relevant to the Major Bridges construction project (JICA) had been made by the Project without obtained approval of the Secretary of the Line Ministry.</p>	<p>With the intention of minimize the interest charges payable on land compensation it was decided to make use of the imprest available in the Reconstruction of 25 Bridges Project as there were no sufficient imprest received under the Major Bridges Construction Project (MBCP) from the Treasury to settle the land compensation payable. Under these circumstance imprests available under the Reconstruction of 25 bridges Project were utilized to pay the compensation under MBCP with the verbal consent of Chief Financial Officer of the Ministry of Highways and Road Development.</p>	<p>The compensation cost of Major Bridges construction project should be recovered.</p>

3.3 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>Five bridges had been handed over to the Road Development Authority by the project without being identified the direct and indirect cost relevant to each bridges constructed.</p>	<p>This position will be rectified by the project once the certificate of statement at completion is received.</p>	<p>Action should be taken to identify direct and indirect cost relevant to each bridges constructed.</p>