

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project – JICA) - 2020

The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project - JICA) for the year ended 31 December 2020 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 provisions in the Loan agreement No.SL-P108, dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comments and observations which I consider should be reported to Parliament appear in this report.

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 Highways is the Executing Agency and 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 Japanese 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 balance amount of Japan Yen 3,751 million agreed to be financed by the Government of Sri Lanka. The Project commenced its activities on March 2013 and scheduled to be completed by 2019. The loan disbursement expiration is scheduled to be closed on 5 June 2021 and Japan International Corporation Agency is not willing to grant loan extension. As result, a sum of Japan Yen 4,595 million equivalent to Rs. 7,760 million or 37 per cent of the total loan could not be utilized for the construction of balance scope of works of the Project.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for 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 the 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. Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Section 3.2.2 of the Management Services Circular No. 01/2019 dated 15 March 2019	Contrary to the provision of the Circular, salary amounting to Rs.1.4 million had been over paid to 2 officers, due to incorrect salary steps were given by the Project.	No overpayments have been made.	Salaries of the Project staffs should be calculated based on Management Services Circular No. 01/2019 dated 15 March 2019
(b)	Section 3.2.3 of the Management Services Circular No. 01/2019 dated 15 March 2019 and Public Administrative Circular No. 03/2016 of 25 February 2016	Contrary to provision in the Circular, the Project had over paid Rs. 1.9 million to the 3 project staffs of the SPMU including 50 per cent allowances, EPF and ETF etc. as at 31 July 2021.	No overpayments have been made.	Salaries for the posts of the Project staffs which are not mentioned in the Table 01 should be based on the initial step of salary scales at the recruitment level of similar post in the Public Administrative Circular No.03/2016

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Although the loan had been in effect since 5 June 2013, due to delays in the construction of the bridge as at 31 December 2020, out of the Japanese Yen 12,381 million, Japanese Yen 4,586 million or 37 percent of the total loan had not been utilized. As result, A sum of Rs. 84 million had been paid as commitment fees. Also, the project had not withdrawn any amounts from the loan from 5 June 2020 to 5 July 2021. However, Rs. 4 million had been paid as commitment charges.	JICA did not give the concurrence to proceed with package 3 and it was finally decided to close the loan on 02 July 2020.	Need to plan the bridges construction works properly in order to complete scope of works within the period of loan.

- (b) Consultancy services for bridge design and supervision was started in 2013 and design of 37 bridges had been completed by the Consultant as at 2015. However, out of total designs, 18 bridge designs had only been used by the Project for the construction of new 18 bridges under 2 contract package as at end of the loan period. As a result, approximately cost of Rs.275 million incurred by the Project to designing of 19 bridges had become fruitless to the Project.
- RDA is using the designs of balance 19 Bridges done by the MBCP for Re-construction of them under other Projects.
- Action need to be taken to use the balance designs in future bridges construction works to reduce the loss.

3.2 Issues on Land Acquisition

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
<p>According to the information received, the Project had planned to acquire 395 plots of land including 172 crown lands for the construction of 22 bridges under 3 contract packages and compensation amounting to Rs.337 million had been paid for 121 plots of land up to 31 December 2020. In addition, a sum of Rs.41million had been spent as interest on delays in settling compensation payments at the end of the year under review. However, it was observed that, only 36 plots of lands had been registered under Section 44 of the Land Acquisition Act as at end of the year under review. Further, a sum of Rs. 34 million incurred by the Project for the Land acquisition activities of the Package-03 had not been commenced, due to inadequate financial facilities of the Project.</p>	<p>Actions are in progress with respective Divisional Secretariat to register all balance acquired lots under section 44 of the Land Acquisition Act. However this process was delayed due to prevailed COVID pandemic.</p>	<p>Need to take action to complete balance land acquisition. In addition to that, adequate planning, progress reviewing, supervision and controls over compensation payments are required.</p>