

## **Reconstruction of 25 Bridges Project - 2023**

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The audit of the financial statements of the Reconstruction of 25 Bridges Project for the year ended 31 December 2023 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 Parliament appear in this report

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

According to the Loan Agreement, then the Ministry of Highways, Ports 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 initially been extended up to 31 December 2019 and then 31 December 2023.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 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 scepticism 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 Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	According to the section 62 of Sri Lanka Public Sector Accounting Standard No 07, the depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset. However, the action had not been taken to recognize depreciation amount of Rs.1.35 million in the year under review.	1.35	Agreed.	Should be comply for the Sri Lanka Public Sector Accounting Standard.

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| (b) | According to the section 07 of Sri Lanka Public Sector Accounting Standard No 01, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. However, the expenses amounting to Rs.5 million which had been incurred by the Road Development Authority on behalf of the PMU had not been accounted as the expenses of the PMU for the year under review. Therefore, it was observed that the expenses of the PMU had been understated by similar amount. | 5   | Agreed.  | - Do -   |
| (c) | There was a dispute between the PMU and a construction company for the payment of excavation work, under the bridge No ¾ on Thalawthugoda road. As per the decision taken by the dispute board, PMU was instructed to pay Rs.9.4 million as claim and financial charges as per the contract agreement for dispute No.2 and No.3. However, PMU had not taken action to make provision for above payment.  | 9.4 | Approved | Action should be taken to make provision for all liabilities.  |
| (d) | Funds had been transferred by the PMU to the Major Bridges Construction (MBC) Project in the year 2018 without an agreement and approval from the line ministry. Even though, the MBC project had been wound up in the year 2020, the PMU had not taken action to recover the amount before wound and the amount is still shown as a receivable from MBC project in the financial statement.   | 10  | Agreed.  | Chief accounting officer should conduct a proper investigation on unapproved payment.                            |
| (e) | Fourteen Interim Payment Claims had been submitted from 08 June 2022 to 27 September 2022 to the foreign donor agency. However, the agency had not been paid that amount until the end of the year under review. Therefore, audit observed that there is a risk of paying delay charges as per the general condition of the contract. However, no provision or disclosure had been made in the financial statement.  | 252 | Agreed.  | All the events and transactions should be recorded as per the Sri Lanka Public Sector Accounting Standard No. 08 |

(f)	The interest for compensation of land acquisition had not been recognized as a liability at the end of the year under review.	20.6	Not Agreed. Any Payment regarding land acquisition has not been done by the project during 2023. All these works had done by Director (Land), RDA. Therefore, no liabilities mentioned in to the final statement. However, land acquisition payment until the winding up of the Project will be incorporated in the winding up Financial Statement of the project.	All the events and transactions should be recorded as per the Sri Lanka Public Sector Accounting Standard No. 01.
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## 2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019,	The Secretary to the Line Ministry shall ensure that the Project Steering Committee should meet at least once in two months. However, only one Steering Committee meeting had been held during the year under review and only eight Steering Committee meetings were held from 2019 to 2023.	Agreed.	An effective internal control system for the financial control exists in the Project and carry out periodic reviews to monitor the effectiveness of such system as per the Section 38(c) of National Audit Act No.19 of 2018, and give written instruction accordingly.

### 3. Physical Performance

#### 3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The contract period of four bridges under the package 03 had been extended by the Road Development Authority. However, the contractor had not been completed the works within extended time and EOT for further delays also had not been approved by the Engineer as per the contract agreement. Moreover, the PMU had not taken action to deduct amount of Rs.27 million from IPCs as delay charges until 7 July 2022 as per the section 8.7 of the contract agreement before submitting them to donor.	Agreed	The Project director should take action to complete the EOT evaluation as per the Contract agreement.
(b)	Even though, as an employer of the construction contract agreement for package 3, had been signed by the chairman and one board member of RDA, the suspension decision as per the section 8.8 of the contract agreement had been taken by the director general of RDA. Therefore, there was an issue for the validity of the decision taken by the director general on behalf of the employer. Based on suspension of the contract, the employer was liable to grant EOT, pay for variation and damages occurred during the period of suspension.	Agreed.	Chief accounting officer should conduct a proper investigation on this matter.
(c)	New 13 bridges have been included in to the initial list of 25 bridges based on a decision taken by the Ministers of Cabinet subject to obtain concurrence from the foreign donor. However, the concurrence for such changes had not been taken by the PMU until the end of the year under review.	Not Agreed. 8 numbers of bridges from the original list of bridges were included in the package 01. Some bridges from package 02 and package 03 have been revised & details of the revised list of bridges have been informed to the Donor. Donor's concurrence has been obtained for revised package 03 and package 02 separately by approving bidding documents.	Proper concurrence from the donor for such changes had not been submitted to audit therefore, action should be taken to submit relevant documents to audit and Chief accounting officer should ensure that an effective internal control system for the contract management exists in the Project.

### 3.2 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
(a) According to the agreement signed between Democratic socialist republic of Sri Lanka and Kuwait fund for Arab Economic Development, initial duration of the project was 05 years form 30 January 2014 to 31 December 2018. However, the project duration had been extended two times up to 31 December 2023. A sum of Kuwait Dinar (KWD) 6.6 million equivalents 66 per cent amounting to Rs. 4,128 million had been utilized out of the total loan within last 10 years. As a result of the PMU was unable to complete the project as per initial plan, the project had to conduct it's works during the period of economic crisis of Sri Lanka and the donor also suspended the loan with effect from 26 June 2022. Therefore, it was observed that expected outcome of the project had not been achieved due to inefficient management of PMU.	<p>Not Agreed.</p> <p>Delays in the Project occurred due to various unavoidable reasons.</p> <p>I. Termination of consultant for package 01 due to poor performance.</p> <p>II. Repeat of civil work contract procurement of package 2, due to rejection of concurrence by KFAED.</p> <p>III. Covid – 19 effects.</p> <p>IV. Economic Crises.</p>	Chief accounting officer should conduct a proper investigation on construction management weaknesses and ensure that an effective internal control system exists in the Project.
(b) A sum of Rs.1.95 million had been obtained by the PMU from the Road Development Authority without any written agreement in 2018 and recorded under the loan written off account without any agreement with RDA and an approval from the secretary to the line Ministry.	<p>Not Agreed.</p> <p>A loan amounting to Rs.1.95 million has been taken from RDA for settlement of compensation payments. Such loan has recognized in the Project Financial Statements as loan payable to RDA and when it was informed that the total loan had been settled by RDA, such loan payable balance of Rs.1.93 million had transferred to the loan written off account.</p>	Accountant should take proper approval before entering Journal Vouchers. Chief Accounting Officer should conduct a proper inquiry on misconducted of financial reporting.
(c) Even though the PMU had Planned to acquire 158 land lots under package 1,2,3 and 4 only details of 81 land lots had been presented to Audit. Therefore, the details of extend of each land lots are not maintained by the PMU and details of remaining land lots had not been presented to audit.	<p>Not Agreed.</p> <p>All details of above lots are available in the Land Division of RDA.</p>	All the information should be submitted by the Project Director.

- (d) A cost of Rs.40.58 million had been estimated to pay interest for land acquisition and out of that amount Rs.27.74 million had been remained as payable at the end of the year under review. Even though, there was a budgetary allocation of Rs.5 million to pay compensation and interest for Land acquisition in 2023, The action had not been taken by the PMU to pay any compensation & interest in the year under review.
- Not Agreed. PMU was active until 31.03.2023. During these 3 months no imprest received to pay compensation. All payments of compensation were done by DDG (Land Management), RDA after 31.03.2023.
- All the transaction and events for the accounting period should be recorded before signing the financial statement.
- (e) Although, the PMU had been closed by 31 March 2023 based on the decision taken by the Secretary to the Ministry of Transport and Highways due to temporary suspension of loan disbursement by the donor. However, PMU had been paid amounting to Rs.5.81 million as a monthly rent of office building from March 2023 to March 2024. Therefore, it was observed that PMU has been implemented without complying with the Government Policy.
- Not Agreed. Less number of staff continued up to 31.03.2023. There was an expectation that Loan negotiation will be successful and project will be recommenced soon. Therefore, the unit office was maintained minimum staff.
- The PMU should not continue after 31 March 2023 without proper approval.