

UK Steel Bridge Project (Phase 02) -2015

The audit of financial statements of the Regional Bridge Project II using British Government Financial Assistance (UK Steel Bridge Project) for the year ended 31 December 2015 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 Loan Agreement No. 53M/FC/1448(201327/SL) dated 21 June 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Hong Kong and Shanghai Banking Corporation Limited (HSBC).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Highways, Ports and Shipping, presently Ministry of Higher Education and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are designing, surveying and supplying of steel material and construction of 104 rural bridges and providing technical assistance and trainings thereon to the staff of the Road Development Authority. For that purpose, a contract agreement had been entered with a foreign Company on 26 April 2012 by the Road Development Authority. As per the Loan Agreement, the estimated total cost of the Project amounted to Sterling Pound 56.50 million (US\$ 88.72 million) equivalent to Rs.12,275.13 million and out of that Sterling Pound 45 million (US\$ 70.65 million) equivalent to Rs 9,775.13 million was agreed to be provided by the Hong Kong and Shanghai Banking Corporation Limited. The Project commenced its activities on 19 September 2013 and scheduled to be completed by 18 September 2017.

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 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 the 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of

affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Public Sector Accounting Standards,

- (b) the funds provided had been utilized for the purpose 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.

3. Financial and Performance Review

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 2015 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			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
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	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
HSBC	70.65	9,775.13	2,075.00	13.97	1,856.77	60.72	7,982.75
GOSL	18.07	2,500.00	497.40	3.40	497.35	7.62	1,113.93
Total	<u>88.72</u>	<u>12,275.13</u>	<u>2,572.40</u>	<u>17.37</u>	<u>2,354.12</u>	<u>68.34</u>	<u>9,096.68</u>

3.2 Physical Progress

According to the information received, the scope of the works under the contract for surveying, designing, providing technical support and training and supplying of material for 104 rural bridges with the length of 3,077.90 metres signed with a foreign company at a cost of Sterling Pound 45 million (US\$ 70.65 million) equivalent to Rs 9,775.13 million had been changed in 04 instances upto 31 December 2015. Therefore, the materials to construct 80 bridges with the length of 3,135.90 metres including 16 bypass bridges and a composite bridge were agreed to be supplied. Out of that, the construction works of 39 bridges including 10 bypass bridges and the composite bridge had been completed as at 31 December 2015.

3.3 Contract Administration

The following observations are made.

- (a) The construction works of 09 bridges had been completed with delays ranging from 05 months to 20 months due to several reasons such as disputes in acquisition of sites, design changes and alterations of the locations and related works. Further, the steel super structure materials for construction purposes for 65 bridges had been supplied by the contractor, eventhough respective construction materials for 70 bridges were agreed to be supplied as 31 December 2015.
- (b) It was observed that, 47 variation orders at a cost of Rs. 243.86 million related to 26 bridges had been approved by the Project during the year under review due to unforeseen geological condition, extra works, erroneous estimations of quantities and shortages of the funds allocated. It was observed that the additional costs thereon could have been avoided if proper attention was made at the initial stages.

3.4 Matter in Contentious Nature

It was observed that the cost of the contract had been determined in Sterling Pounds as per contract agreement entered in to with the foreign company whereas the amount of the Loan had been determined in United States Dollars, as per Loan Agreement entered into with the Lending Agency. According to the calculation made, net exchange loss of US\$ 892,781 equivalent to Rs.130.51 million had been incurred by the Project during the previous 03 years, due to depreciation of United States Dollars against Sterling Pounds.

3.5 Human Resources Management

It was observed that, 05 Consultants and 04 Public Relation Officers had been recruited by the Project without being obtained the approval of the Department of Management Service and a sum of Rs.1.08 million had been paid them during the year under review.