

## **Regional Bridge Project II (UK Steel Bridges Project) - 2018**

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The audit of financial statements of the Regional Bridge Project II (UK Steel Bridges Project) Project for the year ended 31 December 2018 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. 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. My comments and observations which I consider should be report to Parliament appear in this report.

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

According to the Loan Agreement, then Ministry of Highways, Ports and Shipping, presently Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are consisted with designing, surveying and supplying of 104 rural bridges, providing technical assistance and training. Subsequently, the number of bridges scheduled to be constructed had been reduced up to 66 bridges through the Contract Clarification No. 9 of 28 August 2017. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 88.72 million equivalent to Rs.12,275.13 million and out of that US\$ 70.65 million equivalent to Rs. 9,775.13 million was agreed to be financed by Hong Kong and Shanghai Banking Corporation. The balance amount of Rs.2,500 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 19 September 2013 and scheduled to be completed by 18 September 2017. However, the date of completion of the activities of the Project had been extended up to 31 December 2018.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 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 2018, financial performance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **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 Deficiency

<b>Accounting Deficiency</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The stock of bridge components valued at Rs. 249.29 million transferred to the Road Development Authority had been shown under the work-in-progress of the financial statements of the Project.	Overstatement of the value of civil work-in-progress.	Accepted.	Need to be separately accounted.

### 2.2 Unsettled Balances

<b>Description</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The special advance amounting to Rs. 327 million obtained from the Road Development Authority was remained unsettled over 04 years as at 31 December 2018.	Misstatement of the information provided in the financial statements.	It will be fully settled in 2019 using the funds received from the General Treasury.	Need to be adjust the accounts in agreement with the Implementing Agency.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

According to the information furnished to audit, the construction works of the 60 steel bridges had been completed as at 31 December 2018, out of 66 steel bridges initially planned to be completed on 16 September 2017. As a result of slow progress of the construction works of the bridges, the completion date of the Project had been extended up to 31 December 2019. However, the physical progress on construction works of other bridges had remained at a range of 49 per cent to 97 per cent as at 31 December 2018.

### 3.2 Contract Administration

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
According to the information received, charges amounting to Rs. 59.06 million was required to be recovered from the contractors involved in construction of 08 bridges on delays in completion of works over 2,466 days as at 31 December 2018, under the Section-03 of the respective contract agreements. Out of that only a sum of Rs. 9.5 million had been recovered even as at 29 November 2019.	Possible rooms to the contractors to obtain financial gains, contrary to the provisions made in the contract agreements.	The Project Monitoring Unit had taken steps to deduct liquidated damages on a reasonable manner without affecting the cash flow of the contractors during the construction of critical activities.	Need to take proper action to monitor the construction works implemented.