

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project) - 2019

The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction 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 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 balance scope of works of the Project.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of this report, 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 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 Projects 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

The following observations are made.

	Accounting Deficiencies	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Although the Project had procured 05 motor vehicles at a cost of Rs.44.83 million, a sum of Rs.40 million had only been recorded under the Property, Plant and Equipment and balance amounting to Rs.4.83 million had been recorded in the civil work-in-progress account without being capitalized as per the Public Sector Accounting Standard No.07.	Understatement of cost of motor vehicle account.	Agreed, Actions will be taken to corrected.	The cost of 05 motor vehicles should be correctly identified and account under Property, Plant and Equipment.
(b)	Non-current liability arose, due to loan received from the Road Development Authority amounting to Rs.7.32 million shown in the financial statements had been written off during the year under review without being obtained the evidence for settlement of loan to the National Saving Bank by the Road Development Authority.	Misapplication of accounting policy	Agreed, this is due to an oversight and has been corrected now.	Adjustments for the financial statements should not be made without obtaining evidences.

3. Contract Administration

The following observations are made.

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	According to the Loan Agreement entered on 14 March 2013, the total loan facilities available to the Project was Japan Yen 12,381 million equivalent to Rs.20,914 million and the Loan will be expire on 5 June 2021. However, out of the total loan facilities, the Project had utilized Japan Yen 7,794 million	Balance works of the Project could not be completed, due to lack of fund.	Only 10,289 million Yen has allocated for civil works. Value of Contracts awarded to package 1&2 was 8,890 million Yen. Therefore, used percentage is 86.4%. Balance amount available for next packages 1,399	Need to plan the bridges construction works properly in order to complete scope of works within the period of Project.

equivalent to Rs.10,373 million only as at 31 December 2019. Accordingly, Japan Yen 4,595 million equivalent to Rs.7,760 million could not be utilized by the Project within the Project period. Further, it was observed that the closing date of the loan is not extended further by the Lending Agency. Due to delay in awarding the contracts and construction activities of the bridges, Japan Yen 4,595 million representing 37 per cent of the total loan facilities had to be refund to the Lending Agency without being utilized for bridge construction activities of the Project.

- (b) The Project is expected to construct 37 new bridges on 19 national roads in the Southern, Northern, North Western, Sabaragamuwa and Western Provinces under 05 contract packages. Out of the construction works of 10 bridges in the Southern Province, 08 bridges had been completed as at 31 December 2018. The construction works under 02 bridges at Polatumodara and Goviyapana commenced on 20 March 2015 had been completed with delays ranging from 166 days to 438 days, due to delays in handing over the sites, extra works and delay in shifting utility service etc. The construction activities of 08 new bridges in the Northern Province commenced on 24 November 2016 had also been completed as at 31 December 2018 with delays over 120 days. However, the bridge construction works of 19 new bridges in other 03 Provinces under package 3,4 and 5 had been abandoned, due to loan condition, such as Japanese bidders only were allowed to participate for

The completion of bridge construction works had been delayed and increased the cost of the Project.

million Yen and as compared to contact values of package 1&2 it is adequate just for 03 bridges.

At planning stage, it was identified to reconstruct 37 Bridges under Major Bridges construction Project (MBCP) based on estimates prepared by Bridge Design office, RDA using local rates. However, at the Project implementation stage bidding rates became high due to the reasons given below.

According to the initial plan, the reconstruction works of the bridges need to commence within first 2 years to complete it before the expire of the period of Loan.

- I) As per the loan condition the total cost of goods and services procured from Japan shall not be less than thirty percent (30%) of the total amount of contract.
- II) The degree of competition among bidders is very low as only Japanese bidders are allowed to participate for

bidding, delayed in bridge construction activities in package 1 and 2 of the Project.

bidding as per loan condition.

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| (c) According to the information made available, it was scheduled to acquire 317 plots of land including 171 plots of crown land under package 1 bridge construction activities and out of that compensation amounting Rs.280.2 million including development cost for 127 plots of land had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.36.75 million had been paid as interest on delays in settlement of compensation up to 31 December 2019. Out of 127 plots of land, the Project had completed the acquisition process of 36 plots of land only as at 31 December 2019 under Section 44 of the Land Acquisition Act, No. 13 of 1986. | Delays in completion of the bridge construction and increase the interest cost of acquisition of lands. | To expedite the land acquisition process, SPMU has followed the section 38 (A) under Land Acquisition Act. No.13 1986 in year 2014/15, due to commencing of Civil Work in year 2015 March. | Need to take action to complete land acquisition before starting construction works. In addition to that adequate planning, progress reviewing, supervision and controls over compensation payments are required. |
| (d) Project was continuing with the acquisition of 82 plots of land under the package -3 without funding arrangement to commence the bridge construction activities. This will adversely affect to increase the cost of interest on the land acquisition, due to delay in payments of compensation. | Possible delays in construction works of the Project and increase the cost of interest on the land acquisition. | For the Package 03, funds are available from GOSL for the payment of the land acquisition. But as at 31st December 2019 continuation of the loan is in the negotiation stage with JICA, ERD. Land acquisition progress of Package 03 as at 31st March 2020 is 63%. Finally, Secretary, (Ministry of Roads & Highways) has sent loan closure request to ERD, since the all negotiations failed with JICA. SPMU has requested the instructions from the Ministry regarding the continuation of Land acquisition of package 3. | Funding facilities should be arranged before commencement of the activities of the Project. |