

Miscellaneous Foreign Aided Project (Reconstruction of 46 Bridges under French Government Financial Package) -2019

The audit of the financial statements of the Miscellaneous Foreign Aided (Reconstruction of 46 Bridges) 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 the Loan Agreement No. B92 0AI dated 05 November 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the NATIXIS Bank of France. 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 Ministry of Ports and Highways and Shipping, presently the Ministry of Highways is the Executing Agency and Road Development Authority (RDA) is the implementing agency of the Project. It was targeted at the initial stages to supply of 46 steel bridges to Sri Lanka and subsequently added another 04 bridges by using the saving of the proceeds of the loan. As per the Loan Agreement, the estimated total cost of the Project amounted to Euro 45.80 million equivalent to Rs.7,564 million and out of that Euro 22.05 million equivalents to Rs.3,642 million agreed to be provided by NATIXIS Bank of France. The Project commenced its activities on July 2013 and scheduled to be completed by July 2015. However, acquisition of lands had not been completed and the financial statements of the Project had been prepared up to 31 December 2019 and presented for audit.

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 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

Accounting Deficiency -----	Impact -----	Management Response -----	Auditor's Recommendation -----
Although the activities of the Project had been closed as at 31 December 2018, the financial statements for the year under review had been prepared on going concern basis without considering the limitations imposed by the Loan Agreement to curtail the operations of the Project and the Project office continues its operations even up to 31 December 2019.	Accounting policies applied in incorrect manner.	Assets and liabilities of the Project has been handed over to Road Development Authority in year 2020 and Project expenditure has been capitalized.	All assets and Liabilities of the Project need to be transferred to the Implementing agency immediately after completion of the activities of the Project and should prepare the wind up financial statement.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the information received, 27 bridges had been completed in the year 2015 at a cost of Rs.3,084.22 million and the reconstruction works of another 23 bridges had been completed in the year 2017 at a cost of Rs.3,395.57 million with a period of delays ranging from 29 days to 455 days.

3.2 Contract Administration

No	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Although the Project had recovered delay charges amounting to Rs.68.04 million from the contractors involved in reconstruction works of 13 bridges, a sum of Rs.53.08 million related to reconstruction works of 10	Weaken controls on contract administration.	Agreed	Proper supervision on construction works needed to be adopted to minimize the delays in construction works.

bridges had been released from year 2015 to 2018 to the contractors based on allowing the period of time extensions for completion of reconstruction works.

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| (b) | The reconstruction works of the bridge No.5/8 and bridge No.12/3 had been substantially completed on 16 December 2014 and 05 November 2014 respectively and the defect liability period of the above construction works also over on 16 December 2015 and 05 November 2015. However, retention money amounting to Rs.2.75 million related to above construction works had still been remained as a liability of the Project even as at 31 December 2019. | Weaken controls over contract administration. | The Chief Engineers (CE) Gampaha & Kalutara of RDA are inquired their position in release of 2 nd half retention money amounting of Rs.1.375Mn and response is not yet received. Hence, instruction had been given to handover the project to RDA with above liabilities. | Action need to be taken to comply with the condition of contract. |
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3.3 Issues on Land Acquisition

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
According to the information received, it was scheduled to acquire 305 plots of lands including 14 plots of crown lands for the Project. However, the compensation amounting to Rs.31.49 million for 59 plots of lands and interest amounting to Rs.4.43 million thereon had been paid by the Project, due to delay in settling the compensation as at 31 December 2019. Although the land acquisition activities	Possibility of increasing the interest cost on land acquisition and delaying the transferring the ownership to the Road Development Authority.	The survey department, Divisional secretaries and Valuation Department involve with land acquisition Process. According to the available details the land acquisition process mainly delayed at Divisional secretariat offices. It has been send several reminders to relevant	Need to maintain proper coordination with the Divisional secretaries, survey department and valuation department to complete the land acquisition activities on targeted dates.

was commenced on July 2013, the Project was unable to complete the acquisition of 246 plots of lands representing 80 per cent as at 31 December 2019 even the lapses of 6 ½ years. Further, it was observed that no any plots of land had been registered under Section 44 of the Land Acquisition Act as at 31 December 2019.

Divisional Secretaries on this regard.