

## **New Bridge Construction Project over the Kelani River - 2019**

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The audit of financial statements of the New Bridge Construction Project over the Kelani River 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 with provisions of the Loan Agreement No. SLP-III dated 28 March 2014 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 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 Highway, presently the Ministry of Highways and Road Development and Petroleum Resources Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to mitigate and disperse traffic congestion by constructing a new bridge across the Kelani River as a high mobility link, there by contributing to the improvement of transportation network in Colombo City and promoting economic development. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 41,429 million equivalents to Rs.55, 313 million and out of that Japan Yen 35,020 million equivalents to Rs.46, 755 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs.8, 558 million is expected to be financed by the Government of Sri Lanka. Both packages of the Project has commenced its activities on 01 July 2014 and scheduled to be completed by 27 March 2021 and 28 March 2021 respectively.

### **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, 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 appeared in 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 Deficiencies

The following observations are made.

<b>Accounting Deficiency</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendations</b> -----
(a) Retention money of Rs. 66.60 million recovered from the Interim Payment Certificate no 22 had not been separately shown and Rs. 2,051.14 million had been accounted under the current liability in the statement of the financial position of the project for year under review without being considered the period of settlement as per the paragraph 80 of the SLPSAS-01.	Understated the liability by Rs.66.60 million and Each liabilities not separately shown accordingly in the financial statement of the project.	Value of the IPC number 22 of December 2019, based on Engineer's certificate. The value certified by the Engineer was Rs. 658.04 million, including Rs.66.6 million retention money. Retention money should be considered as a liability after the Engineer certifies the payment. This IPC has been certified by the engineer before finalizing of the 2019 financial statements. This was the basis of our provision for the December 2019 IPC.	Need to make provision on based on the professional judgment even in the absence of the Engineer's certificate at the end of the year under review.

## 2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Impact	Response of the Management	Auditor's Recommendations
01	Management Circular No. 01/2019 of 15 March 2019	Project Steering Committee should meet at least once in two months.	On the compliance required by the circular.	Since more attention was paid in having discussions in bringing the site back to normal conditions. As a result the number of Steering Committee meeting planned could not be held.	Management should be complied with requirement of the circular as much as possible.

## 3. Physical Performance

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

Component	Activity	As at 31 December 2019		Delay/ Audit Issue	Impact	Reasons for delays
		Expected physical performance	Performance achieved			
		percentage	percentage			
Package I	Steel Bridge section	68	56	An adverse variation of 12 and 6 per cent from the expected performance.	Actual cost of the Contact may be increased.	The Force Majeure situation prevailed in the country.
Package II	Extrados Bridge Section	62	56			

#### Response of the Management

Due to Force Majeure situation the contractor for Package 1 contract suspended the work and majority of his expatriate staff left the country. It also affected the progress of work. In the case of Package 1 contract the progress is computed taking in to account only the value of steel components brought to the country. The values of steel

components fabricated in factories located in other countries are not taken in to account when computing the physical progress.

**Auditor’s Recommendations**

The PMU need to take action to monitor the performance of the project closely and need to revise the annual programme considering factors which affect to the performance of the project accordingly.

**3.2 Underutilized Resources**

- As per the summary of source of funding in the action plan-2020 of the Project, out of allocation of Rs. 49,379.16 million made by the Lending Agency, Rs. 29,317.11 million equivalents to 59 per cent had been utilized as at 31 December 2019 after lapse of 06 years from the date of commencement of the activities of the Project.
- Out of net provision of Rs. 197 million made under the Government contribution, net expenditure of Rs. 164 million equivalents to 83 per cent had been utilized during the year under review.

**3.3 Matters in Contentious Nature**

No	Audit Issue	Impact	Response of the Management	Auditor’s Recommendations
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01	Relocation activities of the Sri Lanka Atomic Energy Board carried out at a cost of Rs.34 million at Halbarawa had been stopped from 17 June 2015, due to protest made by the general public. Subsequently this site was handed over to construct the new building for National Apprentice and Industrial Training Authority.	A cost of Rs.34 million had been wasteful expenditure to the project.	Since all the structures & material, at the site were handed over to NAITA and some materials were used in RDA’s construction works, this expenditure could not be treated as an uneconomic expenditure. NAITA will be using these partly constructed buildings for their future development works.	This balance need to be kept separately of the books of PMU and then the RDA need to take action to write off the amount from its asset value which transferred from the project.