

Reconstruction of 25 Bridges Project - 2022

The audit of the financial statements of the Reconstruction of 25 Bridges Project for the year ended 31 December 2022 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. 886 dated 30 January 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development. 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 the Ministry of Highways, Ports and Shipping presently, Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to reconstruct 25 bridges with two lanes with pedestrian shoulders in the Western, Sabaragamuwa, Eastern, Southern, North Western, Central, Northern Provinces to meet the increasing demand for the transport of passengers and goods and contribute to the economic and social development of the respective areas by reducing the vehicle operations and road maintenance cost, travel time and accidents. The activities of the Project are implemented under three components namely package 01, 02 and 03. As per the Loan Agreement, the estimated total cost of the Project was US\$ 35.41 million equivalent to Rs 4,632 million was agreed to be financed by The Kuwait Fund for Arab Economic Development. The Project had commenced its activities on 07 September 2015 and scheduled to be completed by 05 September 2017. However, the date of completion of the activities of the Project had initially been extended up to 31 December 2019 and then 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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.

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

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 scepticism 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

No	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	As per the Section 43(a) of Sri Lanka Public Sector Accounting Standard 05, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate at the date of the statement of financial position. However, the parity adjustment related to the loan balance of the project had not been accounted.	3,772	The parity adjustment had not been done at the end of the year and it is noted to apply when preparing the future financial statements.	Adhere to the Sri Lanka Public Sector Accounting Standard.

(b)	According to the Paragraph No. 39 of Sri Lanka Public Sector Accounting Standard No. 02, gains or losses resulting from changes in foreign currency exchange difference are not a cash flow and the related effect should be recorded when comparing balances of opening and closing cash and cash equivalent. However, the exchange differences amounting to Rs.4 million for the year under review had been shown under the cash flow from financing activity. Therefore, the cash inflow from financing activities had been over stated by that amount.	4	It is noted to make adjustment in the future financial statements.	Adhere to the Sri Lanka Public Sector Accounting Standards.
(c)	The contractor of the project had claimed of Rs.151 million including loss of profit of Rs.63 million on 22 April 2022. However, disclosures of contingent liability had not been shown in the financial statement as per the section 100 of Sri Lanka Public Sector Accounting Standard No.08	63	It is noted to disclose contingent liabilities in the future financial statements.	Adhere to the Sri Lanka Public Sector Accounting Standards.
(d)	A sum of Rs.10 million had been transferred to the Major Bridges Construction (MBC) Project without made an agreement or approval, in the year 2018. However, the MBC project had been winded up in the year 2020, that balance had been still shown as a receivable from MBC project in the Project financial statement for the year under review.	10	By the year 2020 MBCP was closed and therefore it was unable to recover this amount from MBCP.	Correct amount should be accounted in the financial statement.
(e)	A sum of Rs.2 million had been obtained from the Road Development Authority by the project without any written agreement in the year 2018. It had been included in to the GOSL funds at the end of the year 2021 and had been written off from the financial statements without proper approval	2	There was a major issue regarding the lack of sufficient imprest received to settle Land acquisition payments. Therefore, Rs. 1.95 million had been obtained from the Road Development Authority to settle the payments.	Action should be taken to obtain funds with proper approvals.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019,	The steering committee meeting had not been held in the year under review.	Steering Committee Meetings had not been held as scheduled since less number of staff reported to work due to Covid 19 pandemic situation and the loan had been suspended by the donor agency with effect from 08.06.2022.	Need to comply with the Management Circular instructions

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Fourteen Interim Payment Certificate (IPC) of Rs.252 million to be paid to the contractor during the year under review had been submitted to the foreign donor agency however the agency had not paid that amount until the end of the year under review. Therefore, it was a risk to pay delay charges as per the General condition of the contract at the end of the year under review.	IPC's amounting to Rs.169 million to be paid to the Contractors had been suspended by the KFAED with effect from 08.06.2022. Therefore, delay charges as per clause 14.8 of general condition of Contract will have to be paid to the Contractors.	Action should be taken to expedite the loan disbursement process.
(b)	Even though, the revised completion date of Package 03 was 14 September 2022, the works had not been completed within the extended period, and the works had temporary suspended by the contractor on 31 August 2022 due to non-payment of Rs.1,440 million interim bills. However, physical progress of package 03 had remained 90 per cent at the end of the year under review. Moreover, due to non-payment of Rs.202 million for interim bills, delay charges could be paid to the foreign consultant as per Section 6.6 of the agreement.	Consultant suspended the supervision of civil works with effect from 31 st August 2022 due to non-payment of Rs.74.9 million of interim bills. Then as per the conditions in the loan agreement, Employer suspended the civil construction works with effect from 31 August 2022.	Action should be taken to rectify the defects

3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
A sum of Kuwait Dinar (KWD) 6.66 million equivalents to Rs.4,128 million had only been utilized as at 31 December 2022 out of loan amount of Kuwait Dinar (KWD) 10 million equivalents to Rs.4,632 million after 9 years from the loan agreement date.	Reasons for delay in utilizing the fund, are revised the agreed list of bridges, termination of foreign consultant for package 1 due to poor performance, poor performance of the contractor of package 1, delaying procurement process of package 2, COVID – 19 pandemic and suspension of disbursement by the Donor with effect from 08.06.2022.	Loan funds should be utilized effectively.