

Transport Project Preparatory Facility - 2018

The audit of financial statements of the Transport Project Preparatory Facility 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 IV Section 4.03 of the Loan Agreement No.3425 SRI (SF) dated 28 October 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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, the Ministry of Ports and Highway, presently the Ministry of Highways and Road Development and Petroleum Recourses Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to improve the startup efficiency of priority transport projects in road, railway, and port subsectors by preparing the feasibility study, detailed design and procurement documents and providing implementation support during the inception stage of Project. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 11.34 million equivalent to Rs. 1697.48 million and out of that US\$ 10 million equivalent to Rs. 1,496.90 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 200.58 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 28 January 2017 and scheduled to be completed by 31 December 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report the 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 Deficiencies

The following observations are made.

	Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendations
(a)	The foreign exchange gain had been set-off against the value of work-in-progress shown in the financial statements.	8.93	The value of work-in-progress had been understated by that amount.	Not properly commented.	Need to be adjusted with the proceeds of the Loan received.
(b)	The interest on loans related to this Project as well as other Project called Transport Project Preparatory Facility under the Colombo Suburban Project had been charged directly to this Project, eventhough only 40 per cent of the total loan interest should be charged, as per the Project Administration Manual.	6.47	The value of work-in-progress is overstated.	Agreed. Action will be taken to rectify it after being obtained instructions from the General Treasury.	Interest of the Project should be divided proportionately as per the Project Administration Manual.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The detailed design works of the Port Access Elevated Highway Project planned to be completed on 19 August 2017, as per the Consultancy Service Agreement had been submitted only on 14 March 2018 with delays in 06 months.

3.2 Underutilized Resources

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
It was observed that out of the allocation of US\$ 10 million equivalent to Rs. 1,496.91 million made under the Loan, only US\$ 1.54 million equivalent to Rs. 264.38 million had been utilized as at 31 December 2018. Further, an allocation amounting to Rs.243 million had been made in the Budget Estimate for the year under review under the Line Ministry and out of that only a sum of Rs.172 million had been utilized during the year under review.	Underutilized allocations of proceeds of the Loan and contribution of the GOSL.	Comments not received.	Need to be strengthen the financial controls and utilize the financial resources in effective manner.