

## **Workshop Building Complex Construction Project under the South Asia Sub-regional Economic Cooperation Port Access Elevated Highway Project - 2022**

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The audit of financial statements of the Workshop Building Complex Construction Project under the South Asia Sub-regional Economic Cooperation Port Access Elevated Highway 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 Section Article II Section 2.09 (a) of the Loan Agreement No3716- SRI(SF) dated 17 January 2019 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 the Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement and Project Administration Manual of the Project, the Ministry of Ports, Shipping and Aviation is the Executing Agency and Sri Lanka Ports Authority is the Implementing Agency of the Project.

The objectives of the Project are that the existing workshop building of SLPA is required to be relocated in order to facilitate for the construction work of Port Access Elevated Project and as per the Project Administration Manual of the Loan Agreement, SLPA is supported to prepare for development of port facilities following the National Port Master Plan. The activities of the Project are implemented under civil work components namely Workshop Building Complex Construction.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 6.11 million equivalent to Rs1,090.08 million and out of that US\$ -6.11 million equivalent to Rs1,090.08 million was agreed to be financed by Asian Development Bank.

The Project had commenced its activities on 09 September 2021 and scheduled to be completed by 09 June 2022. However, the date of completion of the activities of the Project had been extended up to 30 June 2023.

### **1.3 Opinion**

In my opinion, 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 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.

## 2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
a)	Sub -clause 2.4 and 2.6 of the Government Procurement Guideline.	The Procurement Committee and the Technical Evaluation Committee had not evaluated the Engineer Estimates, Bid Documents and Bill of Quantities as required by the Government Procurement Guideline. As a result, a loss of Rs.185.18 million had incurred at the time of awarding the contract due to discrepancies and wrong interpretation of items in the Engineer Estimates. Further, a sum of Rs.132.96 million had also been paid for the price escalations.	As per the policy decision taken by the Government of Sri Lanka (GOSL) in the mid of year 2021, opening of Letter of Credits for importing was discourage. In results, the price of the goods was gradually increased.	It should comply with Government Procurement Guideline
b)	Sub -clause 4.10 of the condition of the contract.	As per the condition 4.10 of the contract, Borehole Investigation Reports should be provided by the Employer and the contractor shall use reasonable efforts to verify their accuracy and the contractor shall conduct further investigations. However, contrary to the said clause, a sum of Rs.566,875 had been paid to the contractor for special test under provisional sum item.	The Grid Line of the PAEH has been changed by the PAEH contractor without the knowledge of SLPA. Therefore, the entire building setting out had to be shifted towards the embankment of the Aluth Mawatha Road.	Timely action should be taken to avoid additional cost.
c)	Sub Clause 8.7 of Particular Condition of the Contract.	As per the Clause 8.7 of the Particular Condition of the Contract, the employer (Sri Lanka Ports Authority) should charge delay damages not more than 10 per cent from the accepted contract amount of the contractor. However, the delay	As per the Sub-Clause 2.1 of the FIDIC, SLPA couldn't give the part of the site possession, until 25 April 2023, as the PAEH Contractor was using the same area for their construction	Necessary actions should be taken to achieve intended targets of the program.

damage had not been charged even though the project had delayed for about 09 months (EOT02) period of time.

activities. Therefore, it is not required to charge delay damages until the end of the extension of time.

### 3. Physical Performance

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

Component	Activity	Delay/ Audit Issue	Performance achieved		Response of the Management	Auditor's Recommendations
			Units/ percentage			
<b>Monthly Progress Report</b>						
<b>Monthly Progress Report</b>	The contractors had failed to complete any main activity even after elapsed 205 days from the original completion date.					
		<b>Item</b>	<b>Name Structure</b>	<b>Progress %</b>		
		1	Machine Shop	91.45	Though it was planned to complete the project by June 2022, the project was delayed due to Grid Line changed by the (PAEH) Contractor, existing coconut oil pipe line laying across the building site, non-availability of Dollars in the country to open LC to import essential steel items, abnormal price hike of goods and services, Covid – 19 Pandemic situations, adverse weather condition and the delays in site handing over by Road Development Authority.	Necessary steps should be taken to achieve the physical progress within the scheduled period of time and if there is any valid reason for delays, it should be documented with relevant authorities' endorsement.
		2	Steel Fabrication Shop	38.20		
		3	Fitting Shop	67.51		
		4	Blacksmith Shop	91.81		
		5	Retaining wall	50		
		6	CEB Sub Station	74.35		
		7	Fire Sump	4.25		
		8	Transformer Installation	13.5		
		9	Sewer Tank	1.25		

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Commitment charges amounting to Rs.2.544 million had been paid to the Lending Agency on undisbursed proceeds of the loan during the year under review due to failure of utilizing the funds of the project within due period and accumulated commitment charges were Rs.7.303 million as at 31 December 2022.	<p>This loan facility has been provided for both Sri Lanka Ports Authority (SLPA) and Road Development Authority (RDA). RDA has commenced the loan disbursement in year 2019 and thereby the commitment charges for the entire balance amount of the loan have been activated. .</p> <p>Therefore, the indicated commitment charge of Rs.2.544 million pertaining to SLPA portion in year 2022 is not an extra charge but a compulsory charge which is already calculated and included in the total loan amount.</p>	Necessary action should be taken to reduce unnecessary cost of the Project.
(b)	A detailed Action Plan stating activities, targeted time period, physical and financial targets by fixing the responsibilities for each item for the year under review had not been prepared by the Project Management Unit.	A common Action Plan including all projects is prepared by relevant project Division. In addition to this, a separate Monthly Action Plan including each main item of the Project has been prepared based on the format provided by Department of Project Management & Monitoring, General Treasury.	An Annual Action Plan should be prepared to measure the targets & achievement for the year under review.
(C)	Even though the Project period had expired on 31 March 2023, the approval for 3rd Extension of Time (EOT-03) had not been obtained even by 31 May 2023.	RDA supposed to handover the site allocated for the Fitting shop to the Workshop Contractor in January 2023. The Workshop Contractor has planned to complete the project by the end of March 2023.	Necessary actions should be taken to complete the construction without further delay and additional costs.