

Kandy Multimodal Transport Terminal Development Project - 2023

The audit of financial statements of the Kandy Multimodal Transport Terminal Development Project for the year ended 31 December 2023 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 04.03 of the Article IV of the Loan Agreement NO.6623 – LK (Concessional Credit) and 6624 – LK (Non-concessional credit) SF dated 22 April 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 of the Project, the Ministry of Urban Development, Water Supply, and Housing Facilities is the Executing Agency, However, in the year 2021 the executing responsibility of this project had been transferred based on a cabinet decision to the Ministry of Transport and Highways and Road Development Authority became the Implementing Agency of the Project. The main objective of the Project is to enhance accessibility, efficiency, and safety for public transport users of the Kandy Multimodal Transport Terminal. The activities of the Project are implemented under 04 components namely, Development of Kandy Multimodal Transport Terminal, Urban Integration and Road Safety Improvements around KMTT, Institutional Strengthening and capacity Building, Contingent Emergency Response Component. As per the Loan Agreement, the estimated total cost of the Project was US\$ 69.33 million equivalent to Rs.13,762 million, of which SDR 47.13 million equivalent to US\$ 64.33 million will be financed by IDA under the concessional terms and US\$ 5 million will be financed by IDA under the non-concessional terms. The Project had commenced its activities on 06 May 2021 and scheduled to be completed by 31 May 2025.

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 2023 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. 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 Section 39, of Sri Lanka Public Sector Accounting Standards No.02, the loss occurred due to the foreign exchange should be reported when comparing the opening and closing balances of cash and cash equivalents. However, an exchange loss of Rs.15.47 million raised from the change of foreign exchange rate in the year under review had been shown as a cash flow generated from the financial activities. Since, the cash flow generated from the financial activities had been overstated and closing balance had been understated by same amount.	15.47	Noted to correct from the next Financial Year.	The accountant should prepare the Statement of cash flow in accordance with Public Sector Accounting Standard No. 02.
(b)	The amount payable to Central Engineering Consultancy Bureau for investigation, detailed design and cost estimate for the construction of seven storied building as at the end of year under review was Rs.2.87 million. However, no provision had been made in this regard.	2.87	Agreed. But this was not certified by the Engineer as at 31 st December, 2023, as such, it was not shown as a liability in the financial statement for the Year 2023.	The accountant should ensure before signing the financial statement, whether all events and transactions have been recorded as per section 09 of the Public Sector Accounting Standard No. 06.

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)	According to sub-clause 2.2.4 of the Management Circular No 01/2019 dated 15 March 2019,	A public notice of vacancy shall be advertised in a public media and also action should be taken to conduct an interview as transparent manner. However, the project had been recruited a competent officer without following the provisions of the circular.	Disagreed. It was published in the Ministry and RDA Websites and interviews were held and selected the competent officers.	The notice for new recruitment should be widely published on public media before recruiting new officers to PMU.
(b)	According to the Circular No. 09/2009 dated 16 April 2009 and the Circular No. 09/2009(i) dated 17/06/2009.	All the officers of the institution should be ensured arrival and departure through a fingerprint machine. However, action had not been taken to install a finger print machine until the date of 27 May 2024.	Agreed. Action will be taken to install a Finger Print Machine.	Action should be taken to install new finger print machine immediately and should not pay salaries and OT until confirm the attendance through a fingerprint machine.
(c)	According to the Section 04 of the National Budget Circular No.3/2018 dated on 16 July 2018	i. The Government agency should be obtained the approval from General treasury to obtain vehicles on operational lease method. However, the PMU had been obtained 03 vehicles on operational lease method (Use and Return) without taking approvals from the General Treasury.	Agreed. The vehicles were obtained on operational lease method without obtaining the approval of the General Treasury as this is a World Bank funded project. The period of lease contracts of the above vehicles have already been completed.	Disciplinary action should be taken against the responsible officers who violate the instruction of National Budget Circular.
		ii. According to the circular mentioned in (5) (c), maximum limit of the monthly rental of double cab and van not exceeding seating capacity 16 should be 165,000 and 170,000. However, the project had been obtained 03 vehicles for the monthly rental of Rs.269,000 per one vehicle, without following the above circular.	As mentioned above.	Should be comply with the Circular instruction.

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The PMU had taken 3 years for preliminary work of Kandy Multimodal Transport Terminal and entered in to an agreement with private company to construct the KMTT within 3 years commencing from 18 March 2024. It was observed that the project could not be able to complete its works and nine storied building before 2026.	Agreed. The contract is being awarded to Maga Engineering (Pvt) Ltd and the completion date is 18 th March, 2027. Since having difficulty in finding funds for the nine storied building, the scope was changed to seven storied building, and currently GOSL funds are being allocated and Procurement process is in progress for awarding the tender.	Chief accounting officer should instruct PMU to complete the project within agreed duration.
(b)	Not later than six months from the loan effective date, the project should be prepared a Project Operational Manual.	Contract was awarded recently and the Project Operation Manual is being prepared	Chief accounting officer should instruct the PMU to prepare the Project Operation Manual as per the loan agreement.
(c)	According to the Technical Evaluation Committee report, key professional qualifications of the Project Manager, Senior Passenger Terminal Design Engineer of selected contractor had not been met the required minimum qualifications. Since, the committee had recommended nominating alternative persons for such posts before starting the construction work. However, the project had not informed the nominated persons by the contractor to the audit until end of May 2024.	According to Conditions of Contract, the Consultant to the Contract is in the process of recruiting the qualified suitable person to the relevant post.	The Project director should ensure whether qualified officers have been engaged by the contractor as per the TEC report.
(d)	According to the operations manual prepared for this project by the Ministry of Urban Development and Housing the project had been planned to complete in 2026. However, the project had been signed an agreement with a contractor to construct the multimodal terminal in 3 years	Disagreed. The Cabinet decision has received for the extension of loan agreement up to 16 th August, 2029 and we have informed the Donor Agency accordingly.	The project director should take action to obtain the concurrence from the donor for loan extension.

commencing from 2024. Since, the loan period should be extended according to the construction agreement, but action had not been taken to obtain the concurrences from the donor to extend the project period up to date of this report.

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| (d) | A mission report requested from the Ministry of Finance had not been submitted to foreign funding agency. | Disagreed. We have already submitted the cost estimate to the World Bank. Currently, GOSL funds are being allocated and the procurement process is in progress for awarding the contract. | Chief accounting officer should conduct a proper investigation in this matter. |
| (f) | Rs. 712 million had been paid to 825 persons as compensation for required land for the construction of the multi-purpose terminal. Out of that Rs.35.06 million had been paid as business losses to 17 persons for three years from the year 2019. Due to delaying the construction work, the project had to pay a sum of Rs. 22.2 million for same persons in the year 2022 and 2023. Moreover, this payment will be rollover until the completion of construction works under this project. | Agreed. | Project director should take action to complete the project within the agreed contract period. |
| (g) | Due to delaying the construction of the project, a sum of Rs.188,000 and Rs.1,371,934 had been paid to clean and rehabilitate the land assigned for construction in the year 2022 and 2023 respectively. In addition to that a sum of Rs.3,000,000 had been paid as security fee at the end of the year review. | Agreed. Procurement process took a long period than expected due to the available loan amount was less than the lowest bid and had to go ahead with the approval process of the Cabinet of Ministers. | Chief accounting officer should take action to evaluate the internal control system of PMUs and introduce new control to avoid this kind of delays in future. |

3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The allocation amounting to Rs. 6,030 million and Rs. 300 million had been provided under the foreign loan and GOSL component respectively during the year under review. However, foreign loan allocation of Rs. 69.03 million and GOSL allocation of Rs. 128.57 million had been utilized during the year under review.	Agreed. Procurement process took a long period than expected due to the available loan amount was less than the lowest bid and had to go ahead with the approval process of the Cabinet of Ministers.	Action should be taken to comply with work programme and action plan.

3.3 Issues Related to Human Resources Management

Audit Issue	Response of the Management	Auditor's Recommendation
Although the project activities were delayed one excess senior engineer had been recruited for the project.	Agreed. For the initiation of the project, relevant key staff was appointed from the implementation agency, RDA. Request has already been made to obtain MSD approval as the service of Senior Engineer is vital to complete the Project within the targeted date.	Chief accounting officer should ensure whether all recruitments limited to approve cadre of the PMU.

3.4 Extraneous Activities

Audit Issue	Response of the Management	Auditor's Recommendation
As per the financial statements of the project for the year under review a sum of Rs.185,954 had been shown as a liability which remained pay to Road Development Authority, while Road Development Authority had been recoded Rs.1,634,458 as a receivable balance from the project at the end of the year under review. Since, the reasons for the deference of Rs.1,448,504 had not been furnished to audit.	Reconciled with RDA accounts and if any adjustments arise will be corrected in the year 2024 final accounts.	Accountant should take action to verify the differences of balances before signing the financial statement.

3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
(a) 09 vehicles had been utilized by the project, out of them 05 vehicles were received from the Road Development Authority, and 03 vehicles were taken on a rent basis. However, only 02 vehicles received from RDA had not been used during the year under review while rented vehicles used over the monthly limits of 2500 km and paid Rs.447,195 as additional charges.	Disagreed. The project utilized only 08 vehicles and only 01 Vehicle was not used due to repairs.	The Project director should take action to control the vehicle maintenance cost as per the budget circular No. 01/2024.
(b) The vehicle maintenance cost of the project had been recorded as Rs. 2.64million and Rs 21.11million in the year 2022 and 2023 respectively. Since the cost had been increased by Rs. 18.47million in the year under review. However, action had not taken to control the cost of vehicles maintenance by the project.	The five numbers of used vehicles by other projects were given to this project from RDA which needs regular maintenance. As such, the maintenance cost of the said vehicles has increased.	The Project director should take action to control the vehicle maintenance cost as per the budget circular No. 01/2024.