

## **Exim Bank of China (Hunan Branch) Funded Widening and Improvement of Roads and Bridges in Central and Uva Provinces Project - 2023**

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The audit of the financial statements of the Exim Bank of China (Hunan Branch) Funded Widening and Improvement of Roads and Bridges in Central and Uva Provinces 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. 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 Highways & 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 Widening & Improvement of 64.31 km length of roads. Out of which 62.06 km RDA roads and 2.25 km length provincial roads and reconstruction of 13 numbers of bridges. The activities of the Project are implemented under 02 components namely Contract no one and two. As per the Loan Agreement, the estimated total cost of the Project was US\$ 100 million equivalents to Rs. 20,300 million and out of that US Dollar 85 million equivalents to Rs. 17,930 million was agreed to be financed by (Export – Import Bank of China). The balance amount of US\$ 15 Million equivalent to Rs. 2,370 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 29 November 2018 and scheduled to be completed by 28 November 2020.

### **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
(i)	Although 73.1 Km roads and 14 bridges valued at Rs.16,048.41 million had been handed over to the Road Development Authority on 31 December 2022 and 31 March 2023 respectively, the amount had not been recorded as assets handed over to Road Development Authority in the	16,048.41	Agreed. Project has been categorized these assets as Roads and Bridges separately, and these details will be handed over to the RDA to include their records.	The accountant should ensure before signing the financial statement, whether all events and transactions have been recorded as per the generally accepted accounting principles.

statement of financial position.

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| (ii)  | According to the section 26(a) of Sri Lanka Public Sector Account Standard No. 05, foreign currency monetary items shall be translated by using the closing exchange rate. However, payable balance of US\$ 11.58 million to contractor had not been translated by using the closing exchange rate at the dates of Interim Payment Certificate (IPCs) forwarded to External Resource Department (ERD) by the Project Management Unit (PMU). As a result, the amount payable to the contractor had been understated by Rs.2,106.15 million.              | 2,106.15 | Payable balance of US\$ 11.58 million to contractor has translated considering the exchange rate prevailed at the time preparing Interim Payment Certificate. However, it was not adjusted using the closing exchange rate, mistakenly.  | The accountant should ensure before signing the financial statement, whether all events and transactions have been recorded as per section 26 of the Public Sector Accounting Standard No. 05. |
| (iii) | According to the section 28(b) of Sri Lanka Public Sector Account Standard No. 07, any cost attributable to bringing the asset to the capable of operating should be comprised to the cost of a property plant and equipment, however, sum of Rs.1,954.18 million of payable balance to contractors and project management expenses for the year had not been transferred to the value of completed civil works. As a result, the amount of civil works had been understated and WIP overstated by the same amount at the end of the year under review. | 1,954.18 | Exact amount of the cost of completed civil work could be ascertained after getting disburse the relevant IPC. As the given amount has not been disburse by the donor as at 31.12.2023, such amount was recorded as WIP without transferring to the value of the completed civil work. | The accountant should ensure before signing the financial statement, whether all events and transactions have been recorded as per section 28 of the Public Sector Accounting Standard No. 07. |

## 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
(i)	General Format No.141 and 219 which is used for issuing and receiving assets as per the Financial Regulation No: 753 (1) and (2).	The Project had handed over 73.31km of Roads and 14 bridges amounting to Rs.16,048,419,762 to the Road Development Authority, without giving the cost of the each road and bridge separately, also the incomplete forms were used for the transferring and taking over the assets were incomplete when it compares with the financial regulation	The detailed statement has been prepared for civil works complied value of Rs.16,048.41 million for cost of each road and bridges is enclosed herewith.	Assets should be transferred to RDA with detail cost schedules of individual assets as per the Financial Regulations and disciplinary action should be taken against officers who handed over assets without sufficient information as per Section 8 of the Chapter XLVII of the Establishment Code volume II
(ii)	section No. 12.1(10) of the foreign loan agreement	The PMU should submit a project completion summery report to the donor within six months from the date of project completion. However, actions had not been taken to submit the report until the date of this report.	As per the loan agreement, PMU should submit the Project completion report to the Lender (Donor) on the request made by the Lender. However, no such request has been still received.	Action should be taken to submit the Completion Summary report to the donor as per the loan agreement.
(iii)	Article 2.3 of the Loan agreement with the donor agency	According to the loan agreement, the project period was scheduled to be completed on 28 September 2021, however, the project period had been extended up to September 28, 2022. The PMU was unable to complete the contract within the extended period and the Ministry of Transport and Highways had requested form the Department of External Resources to extend the project period until 31	agreed	Action should be taken to obtain the approval for extension of loan period from ERD and the donor.

December 2023. However, the approvals had not been received until the date of this report.

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| (iv) | RAMP committee recommendation and the “Report submitted by the Committee Appointed to Review Project Offices and Project Management Units” | The project should be closed by 31 January 2023 and terminate the service of the contract staff by 31 March 2023. However, the PMU had not been closed due date and a sum of Rs.9.06 million paid for salary and maintenance of the office of PMU up to 30 September 2023 without proper approvals. | Considering the practical issues, instructions were given to function the PMU until 30.09.2023. Accordingly, Project Management Unit has been closed by 30.09.2023 and functioned under the Director General of the RDA. | Chief accounting officer should conduct a proper investigation in this matter. |
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**3. System and Controls**  
**Audit Issue**

**Response of the Management**

**Auditor’s Recommendation**

Furniture and fittings amounting to Rs. 0.99 million had been shown as assets handed over to the RDA in the financial statement of the PMU. However, actions had not been taken to handover those assets physically to the authority until the date of this report.

Agreed. Although the furniture and fittings amounting to Rs.0.99million had been shown as assets handed over to the RDA, there were some works had to be carried out to complete the Project. Therefore, the Project had to utilize the assets until June 2024 and the action has been taken to handover these assets to the RDA on 01.07.2024.

Action should be taken to disclose correct information through financial statement.