

Workshop Building Complex Construction Project under the South Asia Sub-regional Economic Cooperation Port Access Elevated Highway Project. - 2024

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 2024 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 No.3716- 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 (PAM) 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 Highway 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 USD 6.11 million equivalent to Rs.1,090.08 million and total cost of the project 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 15 December 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 2024 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. Physical Performance

2.1 Contract Administration

	Audit Issue	Management Response	Auditor's Recommendations
(a)	It was observed that cumulative commitment charges up to 31 December 2024 were Rs.8,969,014 approximately and these charges were incurred on undisbursed proceeds of	The total commitment charges of USD 0.8 million is also included in the USD 300 million loan. The Rs. 8.97 million shown for SLPA (up to 31 December 2024) is part of	Action should be taken to utilize loan fund effectively.

the loan, which indicates a failure to utilize the Project funds within the stipulated period.

these pre-calculated charges and does not require separate payment, as it is already covered within the loan amount.

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| (b) | <p>The Project, which commenced on 09 September 2021 and completed on 15 December 2023 after extensions, it has a Defect Notification Period (DNP) of 730 days, ending on 15 December 2025. As per FIDIC Sub-clause 11.9, the Performance Certificate should be issued within 28 days after the DNP, and as per Sub-clause 14.13 the Contractor should submit the Final Payment Certificate within 56 days after receiving it. However, the ADB loan is also scheduled to be closed in December 2025. In such situation, although the contractor had submitted the final payment bill, there were unresolved claims and variation orders which are currently being reviewed by the Sri Lanka Ports Authority (SLPA). As the contractor had indicated his intention to initiate proceedings under the Dispute Adjudication Board (DAB), it was controversial to the audit that the disbursements upon these payments will be able to be done within the loan period.</p> | <p>The Line Ministry and ADB have been informed that resolving disputes on the Workshop Building Project may extend beyond the loan closing date.</p> | <p>To ensure timely issuance of the Performance Certificate and Final Payment Certificate to complete all payments before the ADB loan closing date and avoid disbursement delays and additional payments.</p> |
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2.2 Observations made on Site Visits

Audit Issue	Management Response	Auditor's Recommendations
Although the activities of the Project had been substantially completed on 15 December 2023, the workshop building facilities had not been fully utilized as at the date of audit on 09 May 2025. This was indicating a gap between Project implementation and its intended usage.	Full utilization has been delayed due to operational issues and the continued use of old buildings awaiting demolition of the four workshop buildings, three are fully operational, while one is underutilized:	Expedite the operationalization of the workshop facilities to achieve the objectives of the Project.