

## **Kandy Multimodal Transport Terminal Development Project - 2022**

---

The audit of the financial statements of the Kandy Multimodal Transport Terminal Development 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 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 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. Comments on Financial Statements

### 2.1 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 9.3 of the Management circular No 01/2019 dated 15 March 2019,	The steering committee meeting had not been held in the year under review.	Due to non-commencing of the civil works of the project, no Project Steering Committee Meetings were held.	Need to be complied with the Management circular instructions.

- (b) According to the Management Audit Circular No. 01/2022 of 07 February 2022. The activities of the project had not been audited by internal Audit. Action will be taken to recruit a suitable Officer. Need to be complied with Management Audit Circular instructions.
- (c) loan agreement, Section 01 of Schedule 02. (i) A supervision consultant had not been appointed before twelve months from the effective date as per the loan agreement. The Project Operational Manual will be completed once the services of Consultant and Contractor are being awarded. Need to be complied with the Loan agreement
- (ii) A Project Operational Manual had not been prepared before six months from the loan effective date as per the loan agreement. The Project Operational Manual will be completed. Need to be complied with the Loan agreement

### 3. Physical Performance

#### 3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Even though, the loan of the project had been commenced from 6 May 2021, the civil work of the project had not been commenced until the end of the year under review due to delaying the procurement process of civil and consultant works. As a result, the project had been incurred US\$ million 0.46 equivalent to Rs.165.61 million, out of UD\$ 18.61 million which was expected to incur during the year under review.	As per the Cabinet Decision the Project was transferred from MOUDH to MOTH in January, 2022 and procurement work is in progress according to the procurement plan.	Action should be taken to expedite the procurement process.
(b)	Due to construction work delaying more than 36 months a sum of Rs.712 million had been paid to 825 persons as compensation up to the end of the year 2021 and a sum of Rs.8.40 million had to be paid again as compensation for business losses to 17 persons out of 825 persons in the year under review. Moreover, the project have to pay Rs.11.49 million and 11.69 million as compensation for the year 2023 and 2024 respectively, for 17 persons. It was observed that the construction work complete with the initial plan the project could be saved additional compensation of Rs.31.59.	The Project was transferred from MOUDH to MOTH in January, 2022 and procurement work is in progress according to our procurement plan.	Action should be taken to expedite the land compensation process

### 3.2 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Net provision of the GOSL fund for the year under review for the project was Rs.150 million and it was observed that the project had been utilized only a sum of Rs.17.09 million during the year under review. Delay in construction of railway building for the staff of railways and less payment of land compensation are mainly affected to that situation. Moreover a sum of Rs.0.96 million had been paid as house rent to the staff of Railway Department during the year under review.	Delay was occurred due to the time taken to get necessary approval from the Appropriate Procurement Committee to award the Consultancy Contract to prepare cost estimate for the Railway Building.	GOSL fund should be utilized effectively
(b)	As per the expected disbursement schedule of the project, it had been expected to spend USD 13.5 million at the end of the year under review. However, only USD 460,000 disbursed during the year under review and out of that USD 406,640 had not been utilized at the end of the year under review. Therefore, it was observed that the expected civil and consultant works had not been implemented during the year under review and the Payment had not been made for the Commitment charges, service charges and consultant payment are affected to underutilization of Loan funds.	As per the Procurement Schedule it is expected to award the Consultancy Service Contract for transitional bus operation during the construction of KMTT to Transport Service Authority Central Province. Accordingly, Cabinet Paper was submitted for approval and the decision was delayed.	Loan fund should be utilized effectively