

Transport Project Preparatory Facility Project - 2022

The audit of the financial statements of the Transport Project Preparatory Facility 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 Article of Loan Agreement No. 3425 SRI (SF) dated 28 October 2017 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 Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Ports and Highway, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to improve the startup efficiency of priority transport projects in road, railway, and port sub sectors by preparing the feasibility study, detailed design and procurement documents and providing implementation support during the inception stage of the Projects. The activities of the Project are implemented under three (03) components namely Roads, Railway and Port. As per the Loan Agreement, the estimated total cost of the Project was US\$ 11.34 million equivalent to Rs.1697.48 million and out of that US\$ 10 million equivalent to Rs.1496.90 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.200.58 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 28 January 2017 and scheduled to be completed by 30 June 2023.

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 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 Accounting Deficiencies

No	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	Three consultancy works had been completed under the elevated highway projects. However they are remained in the WIP account of the project as at end of the year under review without correction.	361.53	After completion of the TPPF Project, all assets will be transferred to RDA.	Correct amount of WIP should be shown in the Financial Statements.
(b)	As per Section 48 of Sri Lanka Public Sector Accounting Standard No. 03, a prior period error shall be corrected by retrospective restatement; however the unrecorded interest charge of Rs.22.6 million relevant to prior years had been shown under noncurrent assets in the statement of financial position as at 31 December 2022.	22.6	It will be corrected in 2023 Financial Statements.	Adhere to the Sri Lanka Public Sector Accounting Standards.

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The consultancy work of International PPP procurement Advisor which was expected to be 100 percent progress as at 14 July 2020, however the physical progress of the consultancy work had remained 72 percent up to the year under review.	PPP Procurement Advisor could not complete the assignment due to abandoning of Athurugiriya Elevated Highway project in this year.	Need to take action to catch up the delays and ensure to complete the consultancy works timely.
(b)	Three consultancy reports out of four consultancy works had not been submitted to the Road Development Authority until the date of this report. Moreover, the details of submission and review of inspection report, conception report, draft report, financial report and final report had not been presented to audit. Therefore, the progress of other three consultancy works could not be verified in audit.	Soon after handing over process is completed, the documents will be handed over to the Audit.	Action should be taken to furnish the consultancy reports to Audit.

3.2 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	As per the Project Administration Manual, a cost of USD \$ 10 million had been provided for Road component by the ADB. However, only USD \$ 2.58 million had been utilized as at the end of the year under review. Non-implementation of Proposed Expressway Development Project and incompleteness of consultancy work were mainly affected to that poor utilization of funds.	One of the Individual consultancies (PPP Procurement Advisor) could not be completed due to abandoning of Athurugiriya Elevated Highway project in this year.	Loan fund should be utilized effectively.
(b)	Even though, the provision of the GOSL fund for the year under review for the project was Rs.40 million and it had not been utilized by the project.	Due to non-acceptance of Expressway Development Plan by the Treasury, GOSL expenditure did not arise as planned.	GOSL fund should be utilized effectively.