

Colombo Port Expansion Project - 2013

The audit of financial statements of the Colombo Port Expansion Project for the year ended 31 December 2013 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 2.09 (a) of Article II of the Loan Agreement No.2319 SRI dated 25 April 2007 entered into between the Asian Development Bank (ADB) and the Sri Lanka Ports Authority.

1.2 **Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, the Ministry of Highways, Ports & Shipping is the Executing Agency and the Sri Lanka Ports Authority is the Implementing Agency of the Project. The objective of the Colombo Port Expansion Project is to promote economic growth through improving the competitiveness or by using it as a public and private partnership to maintain its status as a regional transshipment Hub Port. The total estimated cost of the Project amounted to US \$ 424.8 million equivalent to Rs. 46,715.68 million and out of that Asian Development Bank had agreed to finance US \$ 300 million equivalent to Rs. 32,991.3 million. Further, the Government of Sri Lanka and Sri Lanka Ports Authority had agreed to finance US \$ 49.7 million equivalent to Rs. 5,465.56 million and US \$ 75.1 million equivalent to Rs. 8,258.82 million respectively. The Project commenced its activities on 11 April 2008 and was expected to be completed by April 2012. Nevertheless, the Asian Development Bank had extended the Project period up to 30 April 2013 by letter dated 03 May 2011. The expenditure had been distributed among the Project Components as follows.

Project Component -----	Amount -----	
	US \$ Millions	Rs. Millions
Cost of Preliminary Works	318.5	35,025.76
Cost of Supervision and Construction	12.7	1,396.63
Taxes and Charges	49.7	5,465.56
Contingencies	43.9	4,827.73
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	424.8	46,715.68
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Note: Exchange Rate as at 25 April 2007: US \$ 1 = Rs.109.9710.

1.3 **Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure on the Project from the funds of the Government of Sri Lanka and the Lending Agency , the progress of the Project in financial and physical terms, the assets and liabilities arising out of the operations of the Project, the identification of purchases made out of the Loan, etc,
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (d) Whether the funds, materials and equipment provided under the loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report,
- (h) Whether financial covenants laid down in the Loan Agreement had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of the opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principle
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and the information made available the expenditure of the Project for the year under review amounted to Rs. 1,980 million and the cumulative expenditure as at 31 December 2013 amounted to Rs.44,035 million. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	<u>2013</u>	<u>2012</u>	-----
	Rs.millions	Rs.millions	Rs.millions
Works	1,772	7,690	40,057
Consultancy Services	38	185	1,031
Taxes, Customs Duty	9	214	1,618
Finance Charges and Project Administration	161	352	1,329
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	1,980	8,441	44,035
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5. Audit Observations

5.1 Unreconciled balances

According to the Appropriation Account of the Line Ministry, a sum of Rs.46,606,303 had been reimbursed during the year under review as taxes and customs charges whereas according to the Project Account, it was shown as Rs.8,306,093.

6. Utilization of Funds

Certain significant statistic relating to the financing and utilization of funds during the year under review and cumulative utilization as at 31 December 2013 are shown below.

Source	Amount Agreed to be provided		Fund utilized	Funds utilized upto 31 December	
	US \$	RS	during the year	2013	
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	<u>US \$</u>	<u>RS</u>	<u>RS</u>	<u>US \$</u>	<u>RS</u>
	<u>millions</u>	<u>millions</u>	<u>millions</u>	<u>millions</u>	<u>millions</u>
ADB	300.0	32,991.3	1,810	3,000	33,748
GOSL	49.7	5,465.5	9	12.7	1,618
SLPA	75.1	8,258.8	161	68.2	8,669
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	424.8	46,715.6	1,930	380.9	44,035
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The following observations are made.

- According to the Annex E of the Agreement signed by the Project with the Consultancy Firm, local salaries amounted to Rs.268,072,500 and the lodging expenses of the foreign staff of the Consultancy Firm for 164 months amounting to Rs.45,100,000 was agreed to be incurred by the Project. Nevertheless, the actual expenditure on the local salaries and the Consultants' lodging expenses up to December 2012 amounted to Rs.321,591,619 and Rs.48,867,204 respectively and as such the total expenditure had exceeded by Rs.55,776,447.
- The exchange loss on foreign transaction incurred by the Project from the commencement at the Project amounted to Rs.2,616 million.
- Although Colombo Port Expansion Project was scheduled to be completed on 31 October 2010, period of the Project had been extended twice up to 30 April 2013. Further the Commitments charges amounting to Rs. 110,781,114 representing 1.2 per cent on unutilized funds had been paid by the Project.

7. Systems and Controls

Special attention is needed in respect of the following areas of control.

- Accounting
- Contract Administration
- Reimbursement of Customs Charges and Pay As You Earn Tax of the Contractor and the Consultant