

Transport Project Preparatory Facility - 2017

The audit of financial statements of the Transport Project Preparatory Facility for the first accounting year ended 31 December 2017 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 1V Section 4.03 of the Loan Agreement No.3425 SRI (SF) of 28 October 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports and Highway, presently the Ministry of Highways and Road Development 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 subsectors by preparing the feasibility study, detailed design and procurement documents and providing implementation support during the inception stage of the Project. As per the Loan Agreement, the estimated total cost of the Project amounted to SDR 17.47 million (US\$ 27.7 million) and out of that US\$ 24.42 million equivalent to Rs.3,655.43 million was agreed to be provided by the Asian Development Bank. According to the Project Agreement US\$ 11.34 million equivalent to Rs. 1,697.49 million had been allocated for the roads subsector of the Project. The Project commenced its activities 28 January 2017 and scheduled to be completed by 31 December 2022.

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 Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit

evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of 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 from the operations of the Project, the identifications of the purchases made out of the Loan etc.
- (d) Whether the initial deposits, closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposits, closing balances and withdrawals from and replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Fixed assets procured by the Project at a cost of Rs. 3.04 million during the year under review through the Consultant had not been brought to the financial statements of the Project.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million		US\$ million	Rs. million
ADB	10.00	1,496.91	250	0.59	92.34
GOSL	1.34	200.58	30	-	0.03
Total	<u>11.34</u>	<u>1,697.49</u>	<u>280</u>	<u>0.59</u>	<u>92.37</u>

A comprehensive detailed action plan highlighting financial and physical targets covering entire Project period with fixing responsibilities to the staff of the Project Management Unit to achieve the targets within the period of the Project had not been prepared and implemented by the Project. However, a sum of Rs.280 million allocated in the Annual Budget Estimate for the year under review to obtain the consultancy services whilst allocation amounted to Rs. 93 million had only been made in the Action Plan prepared by the Project for the year under review.

3.2 Physical Progress

The contract for consultancy services on detailed designing had been awarded by the Project on 20 February 2017 and agreed to be completed the works within 06 months and it included 08 tasks including feasibility study, environment assessment, resettlement monitoring, social assessment and preparation of bidding document for civil works etc. However, the final reports thereon had not been issued even as at 31 March 2018, due to delays in commencement of the subsequent activities of the Project.

3.3 Contract Administration

The Implementing Agency had not taken a proper action at the initial stages of the Project to obtain exemption of local taxes on the payments made to the Consultants. Therefore, Value Added Tax and Nation Building Tax aggregating Rs. 14.44 million had to be paid as at 31 December 2017.