

Transport Project Preparatory Facility - 2020

The audit of financial statements of the Transport Project Preparatory Facility for the year ended 31 December 2020 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 IV of the Loan Agreement No. 3425 SRI (SF) dated 28 October 2016 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 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. 1,697.48 million and out of that US\$ 10 million equivalent to Rs.1,496.90 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 31 December 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in Table 2.1 of my report the financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard.

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 skepticism 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	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	According to the Sri Lanka Public Sector Accounting Standards No. 4, the total interest borne by the project should be identified and	Not identified by the project	Two (02) percent interest calculation cannot be applied to the project.	Interests which are being generated within the construction period with related to the project should be capitalized

accounted. However, only interest of USD 40,434 equivalent to Rs.6 million had been accounted as work-in-progress.

as per Sri Lanka Public Sector Accounting Standard No.4 borrowing costs.

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| <p>(b) Eventhough all the property, plant and equipment of the Project had been transferred to the Road Development Authority during the year as per the financial position as at 31 December 2020, it had not been disclosed in the note of the financial statements. Accordingly, it was observed that the deprecation for the year had not been taken in to the books of accounts and the balance of the assets transferred to the Road Development Authority had not been stated correctly.</p> | <p>1.82</p> | <p>Action will be taken to properly disclosed the assets transferred to the RDA in the financial statements for the 2021.</p> | <p>Assets transferred to the RDA should be separately shown in the project account and depreciation of the assets which are used and controlled by the project should be capitalized.</p> |
| <p>(c) According to the paragraph 47(a) of SLPSAS 3, exchange gain/ loss in the previous year should be corrected as prior year adjustment. However, such exchange gains/loss was recorded as transactions for the year under review.</p> | <p>3.77</p> | <p>It is not a material error for this project since this project is not profit oriented entity and it has no material impact on stakeholders' decisions.</p> | <p>It should be adjusted to the relevant specific previous year rather than adjusting to the current year.</p> |

3. Physical Performance

3.1 Physical progress of the activities of the Project

Out of work items which were identified to be completed by the Project so far, two work items namely consultancy (individual)- International PPP Procurement Advisor and Expressway development project at an estimated cost of Rs.338 million had not been completed as at 31 December 2020.

3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
<p>As per the Project Administration Manual of the Project, the estimated cost of the Road component was US\$ 11.34 million of which US\$ 10 million are provided by the ADB. According to the above information provided approximately US\$ 7.41million should have been utilized by the project as at 31 December 2020. However, only US\$ 2.58 million had been utilized as at the same date.</p>	<p>Consultancy service for Expressway Development Plan is yet to be commenced. Therefore, allocated amount for 2020 under ADB loan could not be utilized fully.</p>	<ul style="list-style-type: none">• The Project should be used the funds on intended purpose.• Projects should be planed properly to gain the expected return on time from the project.