

## **Transport Project Preparatory Facility (Consultancy Service for Feasibility Study for the Colombo North Port Development Project) - 2021**

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The audit of financial statements of the Transport Project Preparatory Facility (Consultancy Service for Feasibility Study for the Colombo North Port Development) Project for the year ended 31 December 2021 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 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**

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According to the Project Agreement and Project Administration Manual of the Project, the Ministry of Ports and Shipping is the Executing Agency and Sri Lanka Port Authority is the Implementing Agency of the Project. As per the Loan Agreement, the objective of the Project is to improve readiness of priority Transport Projects and as per the Project Administration Manual of the Loan Agreement, the Sri Lanka Port Authority is supported to prepare for development of port facilities following the National Port Master Plan. According to the Loan Agreement, agreed total loan amount was SDR 17.47 million and as per the Project Administration Manual the estimated total cost of this component was US\$ 5 million equivalent to Rs. 729.65 million and out of that US\$ 4.42 million equivalent to Rs. 645.01 million was agreed to be financed by the Asian Development Bank. Even though the activities of the Project scheduled to be commenced after three months from the date of 28 October 2016, activities of the component had commenced in 2018 and scheduled to be completed by 31 December 2022.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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**

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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 the Project’s 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. Physical Performance**

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### **2.1 Physical Progress of the Activities of the Project**

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It was planned to complete the consultancy service for feasibility study for Colombo North Port Development Project and its detailed engineering by 2<sup>nd</sup> quarter of 2020. However, the contract was awarded to AECOM Infrastructure & Environment UK Limited on 24 of February 2020, due to delay in procurement process and contract had to be completed within 15 months from that date. The activities under the contract had not been completed by 23 May 2021 as scheduled and two extensions were granted up to 31 July 2022. The overall progress of consultancy contract was 85 percent as at 31 March 2022 and draft environmental impact assessment report, draft feasibility study report and final report had not been completed up to 31 March 2022, due to the COVID 19 pandemic situation. As a result, the target progress could not be achieved.

## 2.2 Underutilized Resources

### Audit Issue

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A sum of Rs.380 million had been allocated for project expenses under GOSL and ADB expenses for year under review through the Annual Budget of Ministry of Ports and Shipping. However, only Rs.287 million had been spent during the year under review.

### Response of the Management

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Due to the non-claiming of the work done from September 2021 to December 2021 by the Consultant, the planned financial progress could not be achieved for the year 2021.

### Auditor's Recommendation

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Annual estimate should be prepared by considering the activities that can be done during in the year and management should take steps to achieved financial targets.

## 2.3 System and Controls

### Audit Issues

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An annual action plan including activities, target time period, physical and financial targets by fixing the responsibilities for the year under review had not been prepared by the Project Management Unit.

### Responses of the Management

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It was agreed to prepare detailed action plan in future.

### Auditor's Recommendation

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An annual action plan should be prepared in order to enable measuring the targets & achievements for the year under review.