

## **Workshop Building Complex Construction Project under the South Asia Sub regional Economic Cooperation Port Access Elevated Highway Project - 2021**

The audit of financial statements of the Workshop Building Complex Construction Project under the South Asia Sub regional Economic Cooperation Port Access Elevated Highway 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 Article II Section 2.09(a) of the Project Agreement of the Loan No.3716- SRI(SF) dated 17 January 2019 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 the Parliament appear in this report.

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

According to the Project Agreement and Project Administration Manual of the Project, the Ministry of Ports, Shipping and Aviation is the Executing Agency and Sri Lanka Ports Authority is the Implementing Agency of the Project. The objective of the Project is that the existing workshop building of SLPA is required to be relocated in order to facilitate for the construction work of Port Access Elevated Project and as per the Project Administration Manual of the Loan Agreement, SLPA is supported to prepare for development of port facilities following the National Port Master Plan. According Project Administration Manual the estimated total cost of this Project was US\$ 6.11 million equivalent to Rs. 1,090.08 million and agreed to be financed by the Asian Development Bank. As per contract agreement, the Project activities should be commenced on 09 September 2021 and scheduled to be completed by 05 June 2022. However, the date of completion of the activities of the Project had been extended up to 30 September 2022.

### **1.3 Opinion**

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 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 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 the 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 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliance	Management Response	Auditor's Recommendation
Circular MOFP/ERD/2007/2 dated 2007 August 07 of Ministry of Finance and Planning	No: The financial statements of the Project had not been submitted to the Auditor General on or before 31 March, as per the circular instructions.	There was no correct understanding about the party by whom financial statements should be submitted and as per the clarification form ADB officials, we took immediate action to prepare the report and to submit to Auditor General.	Financial statements of the Project should be forwarded as instructed by the Circular.

## 3. Physical Performance

### 3.1 Progress of the Activities of the Project

Component	As at 31 December 2021		Audit Issue	Management Response	Auditor's Recommendation
	Expected physical performance	Performance achieved			
Construction of workshop Building Complex	28	12	Eventhough the Project planned to complete approximately 28 per cent of the work at the end of 31 December 2021, it was able to complete only approximately 12 per cent as per the monthly progress report as at 31 December 2021.	The reasons for low progress are as follows. i. Delays to hand over the site – RDA could release this critical land plot on 04.01.2022 which is almost after four (04) months from the commencement of the	Necessary steps should be taken to achieve the physical progress within the scheduled time period and if there any valid reason for delays, it should be documented

Project. with relevant  
 ii. Unauthorized PAEH layout authority's  
 was changed by the PAEH endorsement.  
 contractor.

### 3.2 Issues Relating Procurement Process

#### Audit Issue

The approval of the Cabinet Appointed Procurement Committee for the construction of the workshop building was received on 04 June 2017. However, the relevant construction had been called for international bids on 24 June 2020 with delays more than 03 years. Further, contract had been awarded on 27 July 2021 to the contractor after one year bidding process. Thus, due to time taken more than 04 years for this process, the loan interest and commitment charges as well as increase in input prices had to be incurred to the project uneconomically.

#### Management Response

The CAPC for workshop building Project granted approval to SLPA on 04<sup>th</sup> June 2017, Government of Sri Lanka (GOSL) has signed the loan agreement with ADB on 17<sup>th</sup> January 2019. Accordingly the Project activities have been scheduled. To follow the Procurement Guideline including negotiations with selected contractor, a considerable time period has been consumed in order to award the contract.

#### Auditor's Recommendation

Action should be taken to avoid unnecessary delays.

### 3.3 System and Control

#### Audit Issue

A detailed Action Plan stating 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.

#### Management Response

Usually, a common Action Plan including all projects is prepared by the relevant project division and submitted to SLPA Management in order to send to other relevant government institutions.

#### Auditor's Recommendation

An Annual Action Plan should be prepared to measure the targets & achievement for the year under review.