

Transport Project Preparatory Facility (Consultancy Service for Feasibility Study for the Colombo North Port Development) Project - 2023

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 2023 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 Technical Assistant Loan Agreement (Special Operations) 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, Shipping & Aviation is the Executing Agency and Sri Lanka Port Authority is the Implementing Agency of the Project.

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.

As per the Loan Agreement, the estimated cost of the Project was US\$ 5 million equivalent to Rs.729.65 million and out of that US\$ 4.42 million equivalent to Rs. 643.77 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 84.64 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 24 February 2020 and scheduled to be completed by 23 May 2021. However, the date of completion of the activities of the project had been extended up to 31 May 2023.

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 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 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 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. Comments on Financial Statements

2.1. Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendation
Section 4.01 of the Article IV (Particular Covenants) of Technical Assistance Loan Agreement of the Project	The borrower shall perform or cause to be performed all obligation set forth in Schedule 5 to the Loan Agreement and the Project Agreements. Accordingly, it was planned to complete the consultancy service for feasibility study for Colombo North Port Development Project and its detailed engineering by 2 nd quarter of 2020 as per to the implementation arrangements of Schedule 5 of loan numbers 3425 SRI (SF) dated 28 October 2016 and overall project plan of the Project Administration Manual. However, the contract was awarded on 24 th February 2020 due to delaying the procurement process. Accordingly, contract for Consultancy Services for Feasibility Study for Colombo North Port Development Project was awarded to AECOM Infrastructure & Environment UK Limited for a total evaluated and negotiated contract price of GBP 0.85 million, US\$ 2.03 million and Rs.66.17 million on 24 th of February 2020 and it's to be completed within 15 months from that date. However, the contract had not been completed by 23 rd May 2021 as scheduled and extension was granted up to 31 st May 2023.	Agreed.	Comprehensive plan to complete the Project by fixing the responsibilities, should be prepared by Project Management Unit and necessary steps should be taken to update the Final EIA report.

3. Physical Performance

3.1. Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
According to the Consultancy Agreement, expected outcome and reports should be submitted under the deadline fixed on the Table 02 of Reporting Requirements and the Milestone Payments should also to be made in accordance with the given Table. Final Environmental Impact Assessment Report has	Consultant has completed the studies and submitted the final EIA and FS Reports. FS report has been forwarded to ADB for their concurrence as per the requirement in TOR. Kelani river is one of the most sensitive part of this EIA study and as a prominent stakeholder in TEC committee, the Department of Irrigation has taken a long time to review and forward the comments regarding the outcomes of this EIA study. Several extra meetings were	Reporting requirements should be fulfilled to achieve the targets.

been forwarded to Coast Conservation and Coastal Resource Management Department for Public hearing. However, Public Hearing Report had not been finalized even by 31st December 2023.

conducted with SLPA and Department of Irrigation with the presence of Consultant where relevant modelling details were also shared with them to review this study which took a considerable time.

After receiving the comments from the Irrigation department with some commitments, SLPA has incorporated those comments to the final EIA and it was translated to Sinhala and Tamil languages in order to proceed the Public Hearing as per the conditions stipulated in the TOR.

Accordingly, CC&CRMD has commenced the public hearing on 28.12.2023 for a duration of 30 working days where the public hearing process was ended on February 2024. The report can only be finalized after receiving the publics’ comments or observations (if any) for final EIA Report through the CC&CRMD to SLPA.

3.2. Issue Related to the Environmental Matters

Audit Issue	Response of the Management	Auditor’s Recommendation
<p>The Environmental Impact Assessment Report has identified the possible environmental impact on the environment and society during the implementation of the Colombo North Port Development Project. Accordingly, the following observations are made about factors which may be adversely affected.</p>	<p>An Environmental and Social Management Plan (ESMP) has been developed which sets out the general requirements of the integrated Environmental and Social Management Plan Framework for the proposed CNP Development Project.</p>	<p>The Project should be implemented prepared paying close attention to mitigate environmental risk.</p>
<p>i. Wave Conditions</p> <p>Changes in wave conditions due to presence of physical structures (i.e breakwaters and river training wall) at Zones 2 and 4 – Port Approaches and Kelani River Mouth.</p>	<p>The outline ESMP considers relevant roles and responsibilities, training, monitoring and reporting; change management as well as providing an associated mitigation measures for these kinds of potential environmental and social impacts which have been identified through the course of the ESIA.</p>	
<p>ii. Coastal Morphology</p> <p>Changes in near shore coastal morphology due to the presence of structures (i.e. breakwaters and river training wall) at Littoral Cells 2, 3 and 4a – Port to Kelani River Mouth; Kelani River Mouth; and Defended Coastline (0-4.2km North of River Mouth)</p> <p>Changes in off shore Coastal morphology due to the presence of structures (i.e. breakwaters and river training wall) at Zones 4 and 5-Kelani River Mouth and North of Port.</p>	<p>SLPA as Operator of the Project is responsible to ensure that Project commitments are implemented, and conform to applicable environmental and social legal, regulatory and corporate requirements.</p>	

3.3. Underutilized Resources

Audit Issue

A sum of Rs.824 million had been allocated for project expenses under GOSL and ADB expenses through the Annual Budget of Ministry of Ports, Shipping and Aviation for year under review. However, only Rs.552 million had been spent during the year under review. Details are as follow;

	Provision for the year Rs.	Actual expenses for the year Rs.	Savings Rs.
Loan	737,178,000	506,136,839	231,041,161
GOSL	86,461,360	46,331,709	40,129,651
Total	823,639,360	552,468,548	271,170,812

Response of the Management

The payments are made as per the milestone payment after receiving the reports. The Final Payments will be released after the receive of final EIA report.

Auditor's Recommendations

The activity of the Project should be monitored and the Annual Estimate should be prepared by considering the activities that can actually be achieved.