

## **Transport Project Preparatory Facility Project - 2023**

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The audit of the financial statements of the Transport Project Preparatory Facility 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 Article of Loan Agreement No. 3425 SRI (SF) dated 28 October 2017 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 Transport and 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 SDR 17.471 million equivalent to US\$ 27.7 million and out of that US\$ 24.42 million equivalents to Rs.3,655.43 million was agreed to be financed by the Asian Development Bank. The Project had commenced its activities on 28 January 2017 and completed Roads component by 30 June 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 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 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 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

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Sections 58 and 59 of the Project administration Manual	Road Development Authority should be provided the project completion report to Asian Development Bank (ADB) within 06 months from the date of physical completion of the project. However, action had not been taken to furnish such report to ADB until the date of this report.	Project Completion report of the TPPF has been prepared and handed over to Director General of RDA to take necessary action to formally forward to the ADB.	Action should be taken to submit the related documents including project completion report as specified in the Project Administration Manual.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2023		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage		
International PPP procurement Advisor	Consultancy work	100	75	The work had not been completed by the contractor and the payment of Rs.17.36 million for this work had been fruitless at the end of the project.	A decision taken by the secretary the line ministry, to suspend the Project of Elevated Highway from New Kelani bridge to Athurugiriya.
<b>Response of the Management</b>	The engagement of the International PPP Procurement Advisor was no longer needed. Hence, discontinuing the service of International PPP Procurement Advisor is reasonable due to unavoidable circumstances.				
<b>Auditor's Recommendations</b>	Action should be taken to complete the consultancy works within specified time and also action should be taken to implement the Interrelated Components under one project.				

### 3.2 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	A sum of USD \$ 10 million had been provided for Road component by the ADB. However, only USD \$ 2.55 million had been utilized by the PMU until the completion of the project.	Accepted. Road component of the TPPF Project originally consist of expressway development Project and Design of SASEC Port Elevated Highway. However, preliminary and detailed engineering design of Expressway Development Project was not identified as a matter of high priority. Hence, the main component with the value of 6.9 USD million out of 10 USD million was not implemented.	Action should be taken to utilized loan funds efficiently.
(ii)	According to the Mid - term Review Mission, carried out by the ADB in February 2022, the mission expected to keep up the loan until the Government was ready to provide details of new assignments for the use of remained concessional loan balance. Even though, the Ministry of Highway and Road Development authority had agreed to do so, action had not been taken to submit a proposal for new assignment until end of the project. Therefore, the concessional loan balance of USD \$ 7.45 million was unutilized and refunded at the closing of PMU.	Accepted. A project proposal was submitted to the Department of National Planning (NPD) for their approval and it was approved by NPD on 20 January 2022. However, new assignment and proposals were not implemented according to the National Budget Circular No. 03/2022.	Action should be taken to obtained foreign loans for actual requirement of the road sector and complete the identified work within the loan amount.