

## **Transport Project Preparatory Facility - 2019**

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The audit of financial statements of the Transport Project Preparatory Facility Project for the year ended 31 December 2019 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 Section 4.03 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 subsectors by preparing the feasibility study, detailed design and procurement documents and providing implementation support during the inception stage of the Projects. As per the Loan Agreement, the estimated total cost of the project amounted to US\$ 11.34 million equivalent to Rs. 1697.48 million and out of that US\$ 10 million equivalent to Rs. 1,496.90 million was agreed to be financed by the 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 2019, financial performance 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **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

The following observations are made.

	<b>Accounting Deficiency</b>	<b>Amount Rs. million</b>	<b>Impact</b>	<b>The Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Exchange gain of Rs. 2.38 million shown in the statement of Imprest Account of Central Bank of Sri Lanka had been shown as a loss of Rs.1.39 million in the financial statements during the year under review, due to erroneous accounting treatment.	3.77	Imprest Fund Revaluation Account and the total current assets shown in the financial statements of the Project had been understated.	Agreed. Due to a mistake it has happened	Exchange gain and loss should be identified and accounted correctly to reflect the real scenario of the project.
(b)	Action had not been taken to charge interest on loan for the year under review as per Project Administration Manual (PAM).	50.41	The amount of the Work In Progress had been understated.	Since there were no disbursements in the year 2019 and not accounted for the interests for the project	Interests should be charged in spite of the disbursement are made or not.
(c)	Approval from the Project Director had not been obtained for the twelve (12) journal vouchers prepared for the year under review	186	On the internal control	At present journal vouchers are approved by the Project Director.	All the journal vouchers should be approved before posting to the ledger Accounts.
(D)	Even though four foreign funded projects are implemented by the same Project Management Unit, the total building rent had been paid and fully charged in the financial statements of the Project without being apportioning among other projects.	6.2	Building rent of the Project had been overstated.	Agreed but having faced some difficulties in this regard.	All the general overheads incurred should be accounted separately to each project by using an acceptable basis despite cash outflow.

### **3. Physical Performance**

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

Out of the six works items identified to be completed by the Project so far, three work items namely consultancy (individual)- International PPP Procurement Advisor, Consultancy (Individual)- transport model preparation (3 nos) and Expressway development project had not been completed as at 31 December 2019.

#### **3.2 Underutilized Resources**

<b>Audit Issue</b>	<b>Impact</b>	<b>Comments of the Management</b>	<b>Auditor's Recommendation</b>
It was observed that out of the budgetary allocation of 18.5, only 3.75 million had been utilized as at 31 December 2019.	The Deficit of the budget.	Agreed.	Need to strengthen the utilization of financial resources in effective manner.