

Transport Project Preparatory Facility (Consultancy Service for Feasibility Study for the Colombo North Port Development Project) - 2020

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 2020 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

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. Eventhough 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

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, 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 Accounting Deficiency

Accounting Deficiency	Amount	Response of the management	Auditor's Recommendation
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	Rs.		
Interest expense relating to the Disbursement of the loan to the Project for the year 2020 had not been recognized in the financial statements.	Not identified	As per the Loan Agreement between the GOSL and ADB, the repayments including interest were done through Department of Treasury Operation (TOD). As such, interest expenses are not identified by the project.	The relevant interest of this component should be recorded in the financial statements of the project.

2.2. Non-compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the management	Auditor's Recommendations
(a)	Section 4.01 of the Article IV (Particular covenants) of Technical Assistance Loan Agreement	Although the loan agreement was signed in October 2016, activities of the Project were begun in 2018. Accordingly, the consultancy service for the feasibility study of the project was scheduled to be completed by the 2nd quarter of 2020. However, the contract for the consultancy service was awarded on 24 February 2020. As a result, there was a delay in implementation of the activities of the Project.	The consultancy service for feasibility study for Colombo North Port Development project was identified and after following a comprehensive ADB and international bidding procedure, it was awarded to AECOM. As per the reporting requirement of the agreement the draft feasibility study report has to be completed after 13 months from awarding.	Comprehensive plan to complete the activities of the Project by fixing the responsibilities should be prepared by project management unit.
(b)	Section 4.03 (a) (v) of the Loan Agreement and Section 2.09 (v) of the Project Agreement	The financial statements of the project for the year ended 31 December 2020 had been forwarded to audit only on 21 June 2020. It is observed that financial statements of the project had not been submitted to audit within sufficient time period for audit.	Due to COVID 19 pandemic situation slight delay has been encountered in preparation and approval process of Financial Statements for the year ended 31 st December 2020.	Financial statement of the project should be forwarded within two months after completion of financial year.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	As at 31 December 2020		Audit Issue	Reasons for delay
	Expected physical performance	Performance achieved		
	percentage	percentage		
Inception Report	100	100	-	Due to Covid-19 pandemic situation prevailed in the country.
Interim Report		100	-	
Draft environmental impact assessment Report		0	Expected physical performance was not achieved within the schedule time period.	
Draft feasibility study report	75	0		

Response of the Management Project pause from 10 June 2020 to 16 November 2020, due to Covid-19 pandemic situation prevailed in the country.

Auditor's Recommendation Necessary steps should be taken to achieve the physical progress within the scheduled time period.

3.2 Contract Administration

No	Audit Issues	Responses of the management	Auditor's Recommendations
(a)	Eventhough three consultancy reports should be submitted within the financial year under review according to the contract agreement for consultancy service, draft environmental impact assessment report had not been completed up to 31 December 2020.	Due to the prevailing COVID 19 pandemic situation raised in the country in March 2020, it was difficult to proceed the consultancy work as planned. The period of pause for the study due to Covid-19 pandemic situation was from June 2020 to November 2020 until the team leaders' arrival to Sri Lanka and continue the project. The project is in progress as per the updated work programme.	Action should be taken to fulfill the reporting requirements to achieve the targets of the Project.

- (b) According to the contract agreement for the consultancy service, the final inception report and interim report should be forwarded to client within three weeks and eight weeks respectively. However, only the draft reports had been forwarded to the client within agreed period. Further, based on draft report milestone payments had been released to the consultant.
- As there were no any comments for the submitted draft inception and interim reports from SLPA and ADB, they were accepted and accordingly, the payments were released as per the agreement. Further, the final inception and interim reports were received by now.
- Action should be taken to forward the final reports within the agreed time period.

3.3 Underutilized Resources

Audit Issue	Response of the management	Auditor's Recommendation
A provision of Rs.180 million had been allocated to carry out the activities of the Project under Annual Budget Estimate of the Ministry of Ports and Shipping for year under review. However, only Rs.21.9 million had been utilized during the year 2020.	The project was kept in pause situation from June 2020 to November 2020 and the expected payments were not disbursed as per the schedule.	Annual estimate should be prepared by considering the activities that can be done actually in the year.

3.4 Issues Related to Human Resources Management

Out of 13 approved carder of the project, there were 10 vacancies which were likely to have a direct impact on the performance of the project.

3.5 System and Controls

Audit Issue	Response of the management	Auditor's ecommendations
(a) An annual action plan highlighting the 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.	It was agreed to prepare detailed action plan in future.	An annual action plan should be prepared to measure the targets & achievement for the year under review.
(b) Action had not been taken to open a separate bank account for the Project. Therefore, the GOSL funds received for payment of value added tax had been done through the bank account of the Sri Lanka Ports Authority.	As the instructions given by General Treasury, there is no requirement to open a current account for GOSL expenses as these expenses incurred only for consultation services and only for VAT payments. Therefore, Ministry of Ports & Shipping has issued cheques in favor of Sri Lanka Ports Authority (SLPA).	It is better to open a separate current account belongs to the project management unit to incur the GOSL expenses.