

Exim Bank of China (Hunan Branch) Funded Widening and Improvement of Roads and Bridges in Central and Uva Provinces Project - 2022

The audit of the financial statements of the Exim Bank of China (Hunan Branch) Funded Widening and Improvement of Roads and Bridges in Central and Uva Provinces Project for the year ended 31 December 2022 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. 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 Highways & Road Development and Petroleum Resources Development, presently 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 Widening & Improvement of 64.31 km length of roads. Out of which 62.06 km RDA roads and 2.25 km length provincial roads and reconstruction of 13 numbers of bridges. The activities of the Project are implemented under 02 components namely Contract no one and two. As per the Loan Agreement, the estimated total cost of the Project was US\$ 100 million equivalents to Rs.12,674.90 million and out of that US\$ 85 million equivalents to Rs.10,774.74 million was agreed to be financed by Export – Import Bank of China. The balance amount of US\$ 15 Million equivalent to Rs.1,900.16 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 29 November 2018 and scheduled to be completed by 28 November 2020. However, the date of completion of the activities of the project had been extended up to 30 September, 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 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 Accounting Deficiencies

No	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(i)	The assets purchased through BOQ had not been capitalized by the project. In addition to that, the vehicle and laboratory equipment which were purchased by project for the use of project had not been identified as assets. Furthermore, the above value had been included in the working	91.51	The project cannot capitalize the part of the complete project until the whole project is completed.	Action should be taken to identify and record the project assets.

capital as at 31 December 2022. Therefore, the value of working progress had been overstated by that amount.

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| (ii) | According to the Section No. 39 of Sri Lanka Public Sector Accounting Standard No.02, gains or losses resulting from changes in foreign currency exchange rates are not a cash flow and the related effect should be reported when comparing the opening and closing cash and cash equivalents. However, a sum of Rs. 344 million generated from changes in the exchange rate during the year under review had been recorded as cash flow from operating activities, so the cash flow generated from operating activities had been overstated by that amount. | 344 | Sri Lanka Public Sector Accounting Standard No.02 cannot be applied for foreign currency projects in the mentioned manner. | Adhere to the Sri Lanka Public Sector Accounting Standards. |
| (iii) | According to Sections 24 and 25 of Sri Lanka Public Sector Accounting Standard No. 07, an item of property, plant, and equipment that qualify for recognition as an asset shall be measured at its cost or fair value. However, 156 assets received to the project from Road Development Authority had not been valued in accordance with the above standard. | | The assets that have been transferred by Road Development Authority cannot be capitalized by the project. | Adhere to the Sri Lanka Public Sector Accounting Standards. |
| (iv) | As per the Section 43(a) of Sri Lanka public Sector Accounting Standard 5, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate at the date of the statement of financial position. However, the Parity adjustment related to the loan balance of the project was Rs. 11,926 million as at 31 December 2022 out that only Rs.3,787 million had been accounted. | 7,537 | According to section 31 of SLPSAS No. 5, the exchange different has been recognized and accounted under foreign loan of net asset / equity and the work in progress. | Adhere to the Sri Lanka Public Sector Accounting Standards. |

2.2 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
(i)	Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019,	The Project Steering Committee meeting had not been held in the year under review in accordance with the circular.	Due to Covid 19 pandemic situation, scarcity of fuel and economic crisis, Project Steering Committee Meetings could not be conducted.	Action should be taken to conduct SCM as stipulated manner.
(ii)	According to the Public Administration Circulars No. 09/2009 and 09/2009/I issued on 16 April 2009 and 17 June 2009 respectively.	The finger print machine had not been used by the Project Director, Deputy Project Director, and Accountant to verify their arrival and departure in accordance with the circular.	Due to their temporary appointments to a national priority project these officers were unable to continue their duties on the same office of Exim Hunan Project.	Circular Instructions should be followed

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	Although the cabinet proposal had been granted for the revision of the total estimated cost of the project up to Rs.20,500 million, subject to the approval of the Cabinet's Procurement Committee, that approval had not been obtained up to 03 march 2023.	The detailed report on the revised cost estimate has been submitted to the SCAPC on 3 rd April 2023 with the TEC's recommendations.	Action should be taken to comply with the Cabinet Decision.
(ii)	Even though the 05 roads and a bridge, with 24 defects had been handed over to the Road development authority on 31 January 2022, actions had not been taken to rectify those defects until the end of the year under review.	Some works that the Contractor was unable to complete due to material scarcity and delays in the land acquisition process.	Prompt action should be taken to rectify the defects
(iii)	According to the agreement had been made with the foreign donor on 7 th June 2018, the project period was scheduled to be completed on September 28, 2021, but the project period had been extended up to September 28, 2022.	Approval from the Cabinet has been granted to extend the loan agreement until 31/12/2023. The approval	Action should be taken to obtain approval from ERD

Further, due to the inability to complete the contract within the extended period, the Ministry of Transport and Highways had requested form the Department of External Resources on 21 October 2022, to extend the project period until 31 December 2023, however, the relevant approvals had not been received by 27 March 2023.

has been forwarded to the ERD to coordinate with the donor and finalize the extension.

- (iv) Actions had not been taken to identify the project’s KPI’s. Therefore, the progress of achievement of Project objectives could not be verified in audit.
- completed road length or “SMART” KPI’s
completed number of bridges has been considered as the KPIs.
Should be established.