

Light Rail Transit Project - 2019

The audit of financial statements of the Light Rail Transit 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 Section 18 of the Annex II of the Project Memorandum dated 11 March 2019 entered into between the Democratic Socialist Republic of Sri Lanka and Japan International Corporation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Urban Development and Housing is the Executing Agency of the Project. The objectives of the Project is to enhance the efficient transportation capacity and improve the service of the public transportation by introducing the Light Rail Transit (LRT) in the Colombo Metropolitan Area where serve traffic congestion due to the sharp increase in traffic demand is a major challenge, there by contributing to improvement of urban environment through reduction of traffic problem.

The total cost for the project is JPY 246,641 million and out of total estimated cost, JICA provide JPY 200,215 million equivalent to Rs. 286,839 million through six (06) tranches scheduled during 2019- 2024. As per the Tranche one (01) of the Loan Agreement, No SL – P119 the estimated total cost of the Tranche one was JPY 41,252 million equivalent to Rs.59,100 million and out of that JPY 30,040 million equivalent to Rs.43,037 million was agreed to be financed by Japan International Corporation Agency. The Project had commenced its activities on 25 March 2019 and scheduled to be completed by 31 December 2024.

1.3 Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 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.

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

Accounting Deficiency -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Consultation fee amounting to Rs. 603,134,847 payable for the month of October and November of the year under review had not been brought to the financial statements. As a result, the current liabilities shown in the financial statements had been understated.	Understatement of payables in the financial statements.	Action will be taken in future.	The value of the payables as at end of the year should be shown in the financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The following observations are made.

Component	Activity	Audit Issue	Impact	Reason for Delays	Response of the Management	Auditor's Recommendation
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(a) Land Acquisition and Resettlement Monitoring	Land Acquisition	Due to identification failures of required lands and poor supervision over land acquisition process, the progress of land acquisition was about 10 per cent as at the end of the year under review. As a result, Project activities will be delayed.	It will affect the overall scheduled objectives of the project.	Issues on obtaining cabinet approval for the compensation schemes.	The identification and finalization of required lands and exact boundaries were heavily dependent on the finalization of all detail designs.	Sound and effective project management system should be implemented in order to achieve the project objectives through completing of project activities as per the scheduled time period.
(b) Sub Project	Package 1 – Rolling Stock Package 2 – Tack work Package 3 – Depot work Package 4 – viaduct stations (East) Package 5 – viaduct Station (central) Package 6 – viaduct	According to the Project Implementation Plan, six sub projects valued at JPY 149,184 million should have been awarded up to end of June 2020, had not been awarded up to September 2020, due to non-completion of the procurement activities	The time schedules and cost of the project will be over run.	Not mobilizing of consultancy team as the plan.	The Design and Supervision Consultant mobilized on 1 st of April 2019 and commenced the work as planned. However, soon after in April 2019 a force majeure event was occurred (Easter Sunday Attack on 21 st April 2019).	Sound and effective project management system should be implemented in order to achieve the project objectives.

Station (West) within the time schedules.

3.2 Contract Administration

The following observation are made

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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(a) According to the Project Action Plan, the Light Rail Transit Act should be passed during the year under review. However, that Act had not been passed up to September 2020.	Duration of the Project has to be extended and the Project implementation barriers could be created.	Since November 2019 it was indicated by the Secretary to the Ministry of Urban Development, Water Supply and Housing Facilities that Light Rail Transit project will not be continued. Therefore, we did not proceed with the Light Rail Transit Act returned to the Project Management Unit.	After being evaluated the current situation, corrective actions should be taken considering the new alternative solutions.
(b) According to the Rerouting of Transmission Line Sub-Project Time Frame, Profile Design and Foundation Design activities scheduled to be completed at the end of the year under review. However, those activities had not been completed up to September 2020. Hence, delays were observed in commencement of Project works.	Duration of the Project has to be extended.	Estimations have been forwarded to the Project Management Unit for proceeding with onward action.	Corrective action should be taken to expedite the remaining works, considering new proposals.

3.3 Idle and Underutilized Resource

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Out of the total allocation of JPY 30,040 million equivalent to Rs.43,037 million made by the Lending Agency, only a sum of JPY 1,250.45 million equivalent to Rs.2,029.47 million representing 4 per cent had been utilized as at 31 December 2019 after lapse of 8 months from the commencement of activities of the Project. Further, out of the allocation of Rs.4,375 million had been through the Annual Budget Estimate for the year under review, a sum of Rs.2,476 million equivalent to 57 per cent had only been utilized during the year review.	The activities of the project could not be completed during the scheduled time period of the project	Design consultant had not submitted their invoices during the financial year.	Action should be taken to monitor the Action plans and new proposals in order to avoid unnecessary expenses.

3.4 Matters in Contentious Nature

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
(a) According to the Section 05 of the Term of Reference (TOR) for recruitment of consultants, qualification of key experts should be evaluated. However, without evaluating such qualification, key expert had been recruited during the year under review.	The expected outcome of the project may not achieve due to lack of knowledge with key experts	The evaluation of Technical proposals submitted by the consultancy firms were completed by the Cabinet Appointed Consultancy Procurement Committee appointed by the Treasury.	Need to be evaluated key experts before recruiting according to the Term of Reference.

(b) A sum of Rs. 2,267,377 had been incurred for the public awareness programmes by the Line Ministry without considering the objectives of the Project.	This situation has violated the government regulation and such action lead to fraud and misused of public funds	This was incurred by the Ministry of Megapolis & Western Development for public awareness on the development activities carried by the Ministry.	Need to ensure the effectiveness use of project fund for the project objectives.
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3.5 Termination of Project Activities

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Take to consideration of the demerit facts such as higher project cost, huge compulsion payables, less attraction of alternatives made transport for travelling and heavy operational costs, furnished by the Minister of Transport relating to further continuation the projects, the Cabinet of Ministers had decided to terminate the project on 06 October 2020 by closing the project office and setting all liabilities. However, the project had been continued up to the end of January 2021.	Due to cancelling the Loan agreement signed with JICA, over Rs.5 billion compulsion will have to be incurred to the Government of Sri Lanka.	Comment had not been given.	Detail evaluation should be done before making such kind of decision considering the financials and economic factors.