

Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway Project - 2019

The audit of financial statements of the Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway 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 provisions in the Section 04.03(a) of Article IV 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 of the Project, the Ministry of Transport is the Executing Agency and Department of Railway is the Implementing Agency of the Project. The objectives of the Project are to improve readiness, of the priority Transport Projects including the activities of development of feasibility studies and detailed engineering designs for Transport Projects and Provisions of implementation support for the Transport Project. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 11.36 million equivalent to Rs. 1,853 million and out of that US\$ 9.69 million equivalent to Rs. 1,405.06 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 447.94 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 28 October 2016 and scheduled to be completed by 31 December 2022.

1.3 Opinion.

In my opinion, except for the effects of the matters described in the Table 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, financial performance 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.

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.

Accounting Deficiencies -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
<p>(a) Amounting to Differences of Rs. 38.2 million were observed between the amount shown on the notes to the Financial statements (1.1) and the Details of Expenditure Submitted by the project office with regard to Payment made to the Consultancy Services for feasibility study and Detail design of the Colombo Suburban Railway Project during the year under review. In this connection no action had been taken to reconcile the above-mentioned difference by the Project office.</p>	<p>Understatement</p>	<p>Separate expenditure details provided for audit was not clear and hence. We guessed that expenditure incurred that year and we submitted the actual amount paid for the invoices and the VAT payment related to those invoices for the year 2019.</p>	<p>The reason for the difference should be explained and reconcile the differences with the account balances, shown in the Financial Statements.</p>
<p>(b) GOSL fund amounting Rs. 8.36 million received for the purpose of retroactive finance for the Railway Efficiency Improvement Project during the year under review had been erroneously transferred to the Colombo Suburban Railway Project as payment for construction of condominium apartments, without being obtained approval from the General Treasury. As a result Contribution of the Government of Sri Lanka shown in the Financial Statement had been understated by Rs. 8.36 million.</p>	<p>Over statements</p>	<p>Streamlining of Accounts in project office and in order to accounts funds released under Imprest account No. 7002 and two bank accounts have been opened and two cash Books are being maintained. At the end of the year 2019. The balance of (cash book No. 7040317) 8.36 million was transferred to cash Book No. 704316 and was spent in an accurate manner.</p>	<p>Un authorized transfers and accounting errors need to be rectified.</p>

2.2 Non-compliance with Rules and Regulations.

Reference to the Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendation
-----	-----	-----	-----	-----
MSD Circular No. 01/2016 and Cabinet decision	The salary scales of the staff of the Project required to be decided under first category of the Table 01 of the Circular No 1/2016 of 24 March 2016 (revised on 15 th March 2019) of the Department of Management Services, as the initial investment of the Project from foreign sources was remained below US\$ 15 million . However, the Cabinet of Ministers had decided at its meeting on 16 May 2018 to expand the activities of the Project and invest US \$ 135 million thereon. Based on that decision, the Project had taken action to increase the remuneration of the staff of the Project, under the category of the Project with the initial investment above US\$ 100 million even the initial investment of the project below US \$ 100 million. Eventhough, there was no arrangement to explore foreign funds to launch over US\$ 100 million, the over payment of Rs. 12.89 million had been	High costs on operational activities	The Placing of the salaries in relevant salary steps has been done as per management service circular No. 01/2016 and 01/2019	Need to be adhere to the circular instructions.

made by the payment of Salaries to the 38 Project staff members during the year under review contrary to the above circular instruction. It was further observed that, the action had not been taken on the matters reported as sum of Rs.4.49 million overpayments made in the previous Financial year.

3. Physical Performance.

3.1 Physical progress of the activities of the Project.

The Project is implemented to provide consultancy services for designing of Kelani Valley railway line for improvement purposes and awarded a contract to a foreign firm of Consultant on 13 December 2017 at an estimated cost of Euro 256,030 (US\$ 6.48 million) equivalent to Rs. 379.21 million. According to the information received, the feasibility studies carried out by the Design Consultants had been completed and reports thereon had been submitted as at 31 December 2018. Further, Detailed Engineering Design, Preparation of safeguard plan and preparation of procurement plan expected to be achieved the target of 50 per cent. However, it was observed that, the required performance had been achieved 40 per cent at the end of the year under review.

3.2 Contract Administration.

Audit Issues	Impacts	Response of the Management	Auditor's Recommendations
-----	-----	-----	-----
(a) The Project is implemented to provide consultancy facilities for designing of Kelani Valley railway line for improvement purposes and awarded a contract with a foreign firm of Consultant on 13 December 2017 at an estimated cost of EURO 256,030 and US\$ 6.48 million and Rs. 379.21 million. According to the Consultancy Agreement, expected outcome	Poor Contract administration	As per the agreement sign on 13 December 2017, the output report that has to be submitted by end of the year.	The contract document needs to be reviewed by the officers with specialized knowledge 2019.

and report should be submitted under the dead line fixed on the Table 02 of Appendices IV and the Milestone payment should also to be made in order to the given table. However, out of 10 consultant's report to be submitted within the financial year under review, the following five consultancy reports had not been completed up to 31st December 2019. As a result the expected outcome had not been obtained in terms of the consultancy agreement as at 31 December 2019.

- (i) Final Feasibility report for KV Line
- (ii) Draft Final Report and Bidding Documents for Maradana to Padukka (Kalani Valley Line, (Including the detailed design))
- (iii) Draft Feasibility study Report for other three projects
- (iv) Final Feasibility study Report for other three projects.
- (v) Draft Final report and Bidding Documents for Colombo to Rambukkana (Main Line) (Including the Detailed Design)

- | | | | | |
|-----|---|--------------------------|--|---|
| (b) | According to the six Memorandum of Understanding signed between the project office and the Urban Development Authority to construct 1244 housing units for the resettlement purpose of the families living in | Poor contract management | The 50% of super structure means completion of 50% of concrete structure and walls in this measurement | Payment procedure need to be reviewed by the officers with specialized Knowledge in similar field |
|-----|---|--------------------------|--|---|

the side of Kalani Velly Railway Line, the payment procedure had been decided as a reservation fee (advance) at the time of signing of the Memorandum Of Understanding 100% or 50% should be paid for the work on the Super Structure of the condominium building which is expected to be completed by the fixed date. However, it was observed that the details of the super structure construction such as Foundation Levels, Roof Levels had not been clearly specified in the Memorandum Of Understanding. Therefore, the payment of Rs.662,584,564 made to the Urban Development Authority during the year under review had not been duly satisfied in Audit.

completion of whole of floors is considered.

(c) Although the consultant to be submit report about activities and output on every months after commencement of the project activities on the time schedule basis as per the contract agreement appendix (iv) D agreed by the both parties, a sum of Rs.390,220,493 had been made as consultant fees during the year under review without being considered time schedule and dead line of the submission of the Consultant reports.	Poor contract administration	There is a delay in delivering output report No. 07 of table 02 of the agreement this output had to be delivered by December 2019. Payments have been extended base on the outputs delivered at that time.	The contract document needs to be reviewed by the officers with specialized knowledge.
---	------------------------------	--	--

3.3 Extraneous Activities.

Audit Issues -----	Impacts -----	Response of the Management -----	Auditor's Recommendations -----
Although the construction of the residential condominium units to resettle the families living in the sides	Project Fund utilized for other than the	At the cabinet meeting held on 17.10.2017	At the cabinet meeting held on 17.10.2017. The

of the Kelani Valley railway line not comes under the purview of objective of the project, a sum of Rs. 662.58 million had been made to the Urban Development Authority and, a sum of Rs. 26.51 million paid to the staff of the Colombo Suburban Railway project to release full time and part time basis to implement the construction of residential condominium unit.

project objectives.

approval has been given to sign be contract.

cabinet Memorandum for Resettlement of families living in railway right of way along Kelani Valley line enabling to develop the same railway line to be considered and the decision was taken.

3.4 Matters in Contentious Nature.

Audit Issues	Impacts	Response of the Management	Auditor's Recommendations
-----	-----	-----	-----
<p>Eventhough, the resettlement activities and smart ticketing and seat reservation system were not come under the preview of the project objectives, a sum of Rs.4.83 million had been paid to the individual consultant to rendering consultancy service for smart ticketing and seat reservation system. Further, a sum of Rs.77.14 million payables to the UN-Habitat to prepare a resettlement plan and conduct social survey thereon. However, the above said expenditure was treated as a cost of project. It was further observed that a sum of Rs.2.89 million had been paid for the foreign consultant for Railway Efficiency Improvement Project even which is not come under the preview of this project.</p>	<p>The cost of the project would be increased</p>	<p>In order to obtain consultancy services for preparation of design and bid documents for railway smart ticketing and seat reservation system, which is to be implemented under REIP and expenditure Rs. 4.83 million has been incurred</p>	<p>Need to be review the scope of the activities of the Project and comply with the circular instructions.</p>