

Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway Project - 2021

The audit of financial statements of the Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway Project for the year ended 31 December 2021 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 Provision 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, the Ministry of Transport is the Executing Agency and Department of Sri Lanka Railway is the Implementing Agency of the Project. The objectives of the Project are to improve readiness of the priority Transport Project. The activities of the Project are implemented under one component namely to provide consultancy services for designing of Kelani Valley railway line for improvement. As per the Loan Agreement, the estimated total cost of the Project was US\$ 11.36 million equivalent to Rs. 1,654.54 million and out of that US\$ 9.99 million equivalent to Rs.1456.50 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 198.04 million is financed by the Government of Sri Lanka. The Project had commenced its activities on 28 October 2016 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 2021, 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 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. Physical Performance

2.1 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although the construction of the residential condominium units to resettle the families living in the sides of the Kelani Valley railway line not comes under the purview of objective of the project, According to the six Memorandum of Understanding signed between the project office	Out of 1,244 housing units, 694 housing units were purchased from the UDA. Balance of 550 housing units has delayed. <ul style="list-style-type: none"> • According to government decision 144 housing units 	In according to the Cabinet approval construction should complete without delay.

and the Urban Development Authority to construct 1,244 housing units for the resettlement purpose of the families living in the side of Kalani Velly Railway Line. This project is expected to closed in 31 December 2022. However, only 484 housing units has being allocated to resettlement purpose as at 31 December 2021. Hence, the component of this project unable to achieve during the project period.

have been allocated to University of Colombo contrary to MOU.

- Funds not received from Treasury to make require payment.

(b) The main objective of the Colombo Suburban Railway Project was to develop Sri Lanka Railways in the Colombo suburban region to ensure its contribution to the National Transport system for next 20 years. The project included carrying out Feasibility Study and Detail Design for the four railway lines. However, the project had been completed in 2021 March and handed over Feasibility Study and Detail Design Reports to the Line Ministry. The following observations are made.

This was discussed further at a meeting chaired by the Hon. Prime Minister on 10.06.2021. Adhering to the decision made in the meeting a cabinet memorandum was submitted by the Ministry of Transport to continue the preparatory work required to formulate a project for the development of the K.V railway line and to discussed with the ADB to obtain the funds required to undertake the project.

Formulate project for the development of the Kelani Valley Railway Line as soon as possible.

- Feasibility Study Report had been remained idle in the Department of Railway more than one year. No action had been taken up to date.
- The installment of the loan should be paid half yearly on 15 March and 15 September separately. The first installment of the loan have to be paid in 15 March 2022 amounting to US \$ 275,000.
- US\$ 380,000 equivalent to Rs. 69,345,336 had been paid as financial charges for the loan interest as at 31 December 2021.

Asian Development Bank already disbursed US\$ 8.397 million equivalent to Rs. 1,506 million to the project as at 31 December 2021. Out of that 96 per cent of disbursed amounting to Rs. 1,447 million had been paid as consultancy services for Feasibility Study and Detail Design. The Feasibility Study and Detail Design Reports remained idle in the Department of Railway without being Implementing. Hence, no outcome to the country without being Implementing this Feasibility Study and Detail Design Report.

2.2 Matters in Contentious Nature

Audit Issues

Response of the Management

Auditor's Recommendation

Even though the resettlement activities and smart ticketing and seat reservation system were not basically come under the preview of the project objectives, those objectives had been attached to the project through cabinet decisions from time to time. The following observations are made.

Implementing the output of TPPF is a time consuming and high cost affairs. However, addressing the critical bottleneck of the current operation of the railway including smart ticketing and seat reservation system and some more activities were identified and the ADB agreed to finance them.

Need to be review the scope of the activities of the Project and carry out the activities accordingly.

- i. A sum of Rs.19.21 million had been paid from the ADB funds to the individual consultant to rendering consultancy service for smart ticketing and seat reservation system.
- ii. A sum of Rs.150.60 million already paid out of local fund and Rs.20.08 million is to be payable as at 31 December 2021 to the UN-Habitat to prepare a resettlement plan and conduct social survey.
- iii. The project had paid Rs.2.89 million to a foreign consultant for the Railway Efficiency Improvement within the scope of a project implemented under another Asian Development Bank loan. However, the future action for that expenditure which does not fall within the scope of the project had not been disclosed to the audit.

2.3 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
The estimated cost of the Project Management Unit of the Colombo Suburban Railway Project is US\$ 500,000. However, the Project Management Unit had spent US\$ 665,351 which had exceeded the forecast of US\$ 500,000 by US\$ 165,351 equivalent to Rs. 30.8 million for the period.	Accepting the audit observation and a retroactive finance facility under the REIP project had been approved to meet the required finance of REIP, the retroactive finance could not be used since some administrative procedures were still outstanding.	Expenditure should be made within the budget allocation.