

Light Rail Transit Project - 2021

The audit of financial statements of the Light Rail Transit 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 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. 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 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. As per the Loan Agreement, the estimated total cost for the Project is JPY 246,641 million and out of that JPY 200,215 million equivalent to Rs. 286,839 million had been financed by the Japan International Corporation Agency through six tranches during 2019- 2024. As per the Tranche -1 of the Loan Agreement No SL – P119, the estimated total cost of the Tranche-1 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 2021 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principle.

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 Generally Accepted Accounting Principle 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 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

No.	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	The consulting fee payable for the months from July to December of the previous year had not been shown in the financial statements. Hence, the current liabilities of the Project had been understated by that amount.	754.23	The relevant bills can be recognized as payable bills and a provision can be made after the Cabinet's approval.	Payable amount should be shown under the liabilities.
(b)	The VAT payables amounts relating to the 13 invoices furnished by the consultancy firm at end of the previous year had not been provided in the financial statements. Hence, current liabilities shown in the financial statements had been understated by that amount.	192.02	After the approval of the cabinet for the invoice, a provision can be made after the corresponding VAT portion.	Payable amount should be shown under the liabilities.
(c)	A mobilization advance paid to the Ceylon Electricity Board in the year 2019 had been accounted as expenses instead of being shown as a current asset in the financial statements. According to the cabinet decision, the project had discontinued its activities on 06 October 2020. However, the advance amount was not collected until 31 December 2021.	44.04	Agreed.	Advances should be shown under the current Assets.
(d)	Parity adjustment made by the General Treasury had not been brought to the financial statements as at 31 December 2021.	173.7	No comments	Parity adjustment as at the year under review should be taken into accounts.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	Audit Issues	Reasons for Delays	Responses of the Management	Auditor's Recommendations
(a) Land Acquisition	Eventhough the action had been taken to acquire the required land to construct Depot areas, about 21 hectares, under section 10.1 of the Land Acquisition Act, the land acquisition activities had been suspended, due to termination of project activities at the end of the previous year.	Termination of the Project	No comments	Actions should be taken to finalize the divesting process.
(b) Consultancy service	Out of 16 consultancy report, only 11 reports had been furnished by the consultants. Further, only 7 reports had been reviewed by the project out of the received reports. Out of that 03 report had not been accepted by the project after review. In addition actions had not been taken to recover the delay charges on other 05 reports according to the consultancy agreements, due to the provisions were not included to recover the damages.	Not mobilizing of consultancy team as the plan.	No comments	Corrective actions should be taken to expedite the remaining consultancy work and provisions should be included to the consultancy agreements in order to recover the damage.

3.2 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Eventhough the project had been suspended at end of the previous year, the mobilization advances given to the Ceylon Electricity Board for initiating material processing for the utility line shifting from Malabe to Battaramulla amounting to Rs. 36 million and underground utility line shifting and underground cable tacking within Colombo city amounting to Rs. 8 million had not been recovered even up to May 2022.	No Comments	Corrective actions should be taken to recover the advance immediately.

3.3 Issue Related to Management Inefficiency

No.	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Due to terminating of project activities during the previous year, the consultancy firm had claimed US\$ 31.36 million including the receivable amount to them US\$ 23.65 million. In order to negotiate that matter, a committee had been appointed by the cabinet of Ministers on 23 February 2021. Due to the delays for the negotiations, an interest had to be paid for the delayed period by the GOSL.	No comments	Appointed Committee should negotiate the matter immediately.
(b)	The Cabinet has directed the secretary to the Ministry of Urban Development and Housing, as the project implementing Agency by the cabinet decision No. 20/1450/312/002 dated 28 September 2020 to suspend the project and close down the project office. However, it was observed that before suspend the project, the opinion of the Attorney General and views of the Ministry of Finance had not been obtained.	No Comments	Proper feasibility study should be conducted before implement the project.
(c)	Due to the decision made to suspend the project in the previous year, a sum of Rs.102.73 million equivalent to Yen 60.08 million which had being paid as a Front End Fee according to the loan agreement signed on 23 May 2019 on 0.2 per cent of total loan amount had been become fruitless expenditure. As well, in order to repay the loan amounting to Rs.4,622.45 million equivalent to Yen 2,703.18 to the Lending Agency an agreement had not been made with Leading Agency.	No Comments	Agreement with the Lending Agency should be reached in order to repay the loan.