

Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway Project - 2022

The audit of financial statements of the Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway 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 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 2022, 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. Comment on Financial Statements

2.1 Accounting deficiencies

Audit Issues	Responses of the Management	Auditor's Recommendations
According to the record maintain by ADB USD 513,108.43 should pay as interest as at 31 December 2022. However as per the financial statement prepared by the project management unit it stated as US \$ 380,000. Hence financial charge USD133,108 equivalent to Rs 45.4 million has been understated in the financial statement.	Will account rest of the loan interest charges under the Project Financial Statement in the year 2023.	The financial statement should be prepared correctly

3. Physical Performance

3.1 Contract Administration

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 this project, 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 cost amounting to Rs.5,412 million financing by G.O.S.L money. The project closed at 31 December 2022 however only 560 housing units have being allocated to resettlement purpose to the date. As the Physical progress of the project was 45 percent, targeted progress had not been achieved.	Reasons for the delaying physical progress are, required finance was not received from the Treasury timely and the prevailing COVID's 19 impact.	In according to the Cabinet approval construction should be completed without any delay.
(b) The Asian Development Bank had provided USD 8,396,696 equivalent to Rs.1,506 million for the development of Sri Lanka Railways in the Colombo suburbs to strengthen the national transport system in the next 20 years and Rs. 1,447 million had been spent for consultancy services for feasibility studies and detailed plans as at 31 December 2022, in addition, USD 513,108 had been paid as finance cost for the above loan amount. The project was completed in March 2021 and the feasibility study and detailed design reports were handed over to the line Ministry. However even though the reports were in the Railway Department for more than two years, the further action had not been taken to develop the railway system using the above reports.	The outputs under the TPPF, feasibility reports, detailed design reports, and bid documents for the four railway corridors of the Colombo suburban region were received by 30 April 2021 and those were handed over to the SLR , NPD , and the Transport Ministry for further necessary actions.	Should be Formulated project for the development of the railway line as soon as possible.

3.2 Matters in Contentious Nature

Audit Issues	Response of the Management	Auditor's Recommendation
<p>The resettlement activities, smart ticketing and seat reservation system and Railway Efficiency Improvement Project activities were not come under the purview of the project objectives. Those are joined to the project by Cabinet Decisions in time to time. As the expenditure report, following expenditure was treated as cost of the project.</p> <p>(i) A sum of Rs.19.21 million had been paid by the ADB funds to the individual consultant to rendering consultancy service for smart ticketing and seat reservation system.</p> <p>(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 2022 to the UN-Habitat to prepare a resettlement plan and conduct social survey.</p> <p>(iii) A sum of Rs.2.89 million had been paid for the foreign consultant for Railway Efficiency Improvement Project</p>	<p>Some more activities were identified and the ADB agreed to finance them. Accordingly, the REIP project was created and required preliminary works to be done by utilizing funds from TPPF.</p>	<p>Need to review the scope of the activities of the Project and expenditure should be made according to the project administration manual.</p>

3.3 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>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.</p>	<p>As per the instructions given by the Secretary Ministry of Transport & Highways, initial concurrence was obtained from the road component to reallocate their PMU cost savings to the railway component.</p>	<p>Expenditure should be made according to the Project Administration Manual.</p>