

## **Colombo Suburban Railway Efficiency Improvement Project Functioning under the Colombo Suburban Railway - 2022**

---

The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project Functioning 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 4.02 (a) Article (iv) of Loan Agreement No 3806 - SRI (SF) dated 20 August 2019 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 efficiency, sustainability and safety of the railway network. The activities of the Project are implemented under (a) Operational efficiency Improved (b) Maintenance capacity strengthened (c) Railway safety improved and (d) Technical training center upgraded and Project implementation capacity and readiness of future railway projects strengthened.

As per the Loan Agreement, the estimated total cost of the Project was US \$ 192 million equivalent to Rs 33,878 million and out of that US \$ 160 million equivalent to Rs.28,232 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 5,646 million is financed by the Government of Sri Lanka.

The Project had commenced its activities on 06 September 2019 and scheduled to be completed by 31 December 2024.

### **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 Standard.

### **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. Comments on Financial Statements

### 2.1 Non- Compliance with Laws, Rules and Regulations

| <b>Reference to the Rules and Regulations</b> | <b>Non-Compliance</b>  | <b>Management Responses</b>  | <b>Auditor's Recommendation</b>   |
|---|--|--|---|
| Cabinet Decisions dated 16th May 2018         | The Cabinet of Ministers had not been granted any approval to pay or reimburse any amount from the loan under retroactive financing for the salaries of the staff of the Colombo Suburban Railway Project. Project had been paid a sum of Rs.25.4 million as salary and allowances for the period of September 2019 to December 2019 from the project fund | Loan agreement was signed and funds were made available under REIP, Finance code – 12 for development activities and for the project management. | Approval of the Cabinet of Ministers should be obtained to pay or reimburse any amount from the loan under retroactive financing for the salaries of the staff of the Colombo Suburban Railway Project. |

### 3. Physical Performance

#### 3.1 Progress of the activities of the Project

| Component /Sub Component                 | As at 31 December 2022              |                            | Audit Issue   | Response of the Management  | Auditor's Recommendation                   |
|--|-------------------------------------|----------------------------|---|---|--|
|  | Expected physical performance RS Mn | Performance achieved RS Mn |   |   |  |
| - Investment Cost                        | 9,484                               | 3,493                      | Lack financial and physical performance in according to PAM | Covid 19 pandemic. Whole project hold for five months by ministry of finance. Trade union activities. | Project should complete by the end of 2024 |
| - Recurrent Cost                         | 9,569                               | 337                        |   |   |  |
| - Contingencies                          | 1,397                               | -                          |   |   |  |
| -Financial Charges During Implementation | 491                                 | 204                        |   |   |  |

#### 3.2 Contract Administration

| Nos | Audit Issues  | Responses of the Management  | Auditor's Recommendations   |
|-----|---|--|---|
| (a) | Final Report of the Initial Feasibility Study relating to the Panadura-Veyangoda had been prepared by the Egis International /Resources Development Consultants (Pvt) Ltd and, it had been submitted to the Colombo Suburban Railway Project on 08 February 2018. According to the chapter 14.2.1 implementation schedule table 14.1 of the Feasibility Final Report, first priority should have been given to implement Maradana Loco Junction Improvements, Tele Communication, Ticketing and Fare Collection and Construction of Operation Control Center Building only. However, it was observed that, contrary to the feasibility study of the project. New works had been allocated for Railway Efficiency Improvement Project, One of the main course of train delay is identified as bottleneck between dematagoda and maradana. To avoid the bottleneck cabinet has decided to Construct school lane bridge (expansion of loco junction) however, this component had not been commenced up to now. | Bids were called twice for the Construction of the School Lane Bridge under REIP. The bid was not successful in both instances since the minimal participation due to the complexity of the construction. In the meantime, SLR requested to renovate the School Lane Bridge in their capacity (GoSL funds) with the consent of the Project Steering Committee (PSC) meeting. Therefore, it was decided to remove this contract from the project scope. | First priority should be given to complete the main project components with attention given by Feasibility Final Report and Cabinet decision. |

- |     |   |   |   |
|-----|---|---|---|
| (b) | Malapalla Housing Construction Contract of the project had been awarded to Ms/Maga Engineering Company for Rs. 1,317 million on 05 October 2021. It had been decided to increase the original contract price due to delay in starting the construction work, by 87 percent to Rs.2,465 million. However, the physical progress of the project was 27 percent and it was observed that the completion and delivery of this project by the date of the contract is uncertain.   | The delay occurred only during the technical evaluation process due to the COVID-19 pandemic and the intermittent lockdown in the country during the procurement period.  | Project should complete without any delay.  |
| (c) | Consultancy agreement had been signed with the IDOM Consulting Engineering Architecture S.A.U (Spain) at the ceiling amount of foreign currencies EURO 1,385,208, USD 2,642,014 and Rs.194 million for feasibility study and detailed design of Kandy Suburban Railway Project. A sum of Rs. 28 million had been paid to the contractor as at 31 December 2022 and this component expected to be complete in April 2022. However the physical progress of the project is in a low level.  | After initiating the consultancy, for 9 months from 20th July 2020, the project was on hold due to a decision by the Treasury of GoSL. The project was reinitiated in April 2021. In the meantime, the SLR requested a scope change and took four months to finalize the new scope. | Cabinet decision should be considered when implementing whole proposals.  |
| (d) | It was observed that a sum of Rs. 4,502 million had been allocated to implement the ticketing system with the purpose of reducing the long queues at main stations during peak times for purchase of tickets and saving cost of importing tickets. However, enhancement of the railway operations efficiency without being laid the foundation for the electrification of the railway lines could not be ruled out in audit.  | However, the new SMART ticketing system improves the efficiency of Sri Lanka Railways in many ways and provides a modern ticketing system for Sri Lanka Railways. The new ticketing will answer most of the issues faced by the present ticketing system of Sri Lanka Railways.     | Foundation for the electrification of Railway line should be completed prior to the implementation of ticketing system. |
| (e) | The railway communication system development project was signed with Dialog Axiata on 16 November 2020 for a contract value of USD 9.39 million. The deadline for this project, which was to be completed in December 2021, was extended to 30 April 2022, that equipment and system was handed over to the Railway Department by 30 August 2022. Since the Railway Department has not introduced an administration procedure to carry out the tasks of this project however for the year ending 31 December 2022, Rs. 1,484 million had been invested. | The completed communication system handed over to Sri Lanka Railway on 30 August 2022.  | Communication system developed for Sri Lanka Railways should be utilized.   |

|     |  |   |   |
|-----|--|---|---|
| (f) | <p>Although the construction of a railway operation and control center started in 2019 however the contract agreement was signed on 05 October 2021. Due to the increase in the original estimated cost of construction by Rs.3,006 million then the contract cost was revised up to Rs.5,331 million by 77 percent. It was also observed during the audit that due to the delay in starting the project work, the increase in prices led to a high price variation. Although a physical progress of 21 percent was planned in the year 2022, the actual physical progress was 8 percent and since the project period ends by the year 2024, it was observed that the physical progress related to the construction of this center is at a minimum level compared to the project period.</p> | <p>The time between the issuance of the LoA and the signing of the contract on October 5, 2021, The effect of unexpected economic crisis in the country affected the overall construction industry.</p> | <p>Project Should complete without any delay.</p> |
|-----|--|---|---|

**3.3 Extraneous Activities**

| <b>Audit Issue</b>   | <b>Response of the Management</b>   | <b>Auditor's Recommendation</b>                       |
|--|---|---|
| <p>The project had incurred a commitment charge due to underutilized of allocated fund for the period amounting to Rs. 58.7 million and Rs.139.3 million as at end of the year 2022.</p> | <p>The trade unions of Sri Lanka Railways have highlighted several concerns about the project activities, Changing Ministerial portfolio, Covid 19 pandemic scenarios, Treasury suspending all projects for 5 months.</p> | <p>The Financial controls should be strengthened.</p> |