

Transport Project Preparatory Facility functioned under the Colombo Suburban Railway Project - 2023

The audit of financial statements of the Transport Project Preparatory Facility functioned under the Colombo Suburban Railway Project for the year ended 31 December 2023 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 04.03(a) 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(ADB). 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 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 components namely to provide consultancy service for designing of Kelani Valley railway line improvement. As per the Loan Agreement, the estimated total cost of the Project was USD11.36 million equivalent to Rs.1654.54 million and out of that USD 9.99 million equivalent to Rs.1456.50 million was agreed to be financed by Asian Development Bank (ADB). The balance amount of Rs.198.04 million is expected to be 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. However, the date of loan closing for the project has been extended to 30 June 2024.

1.3 Qualified Opinion

In my opinion, (except for the effects of the matters described in the Basis for Qualified Opinion section of my report) the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, 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. Comments on Financial Statements

2.1 Accounting Deficiencies

| Audit Issue | Amount Rs. | Response of the Management | Auditor's Recommendations |
|---|-----------------------|---|--|
| According to the Section No. 27 of Sri Lanka Accounting Standard No.01, the entity should prepare the financial statement on accrual basis. Due to the fact that the actual interest cost for the entire project was USD 609,455 equivalent to Rs. 232.90 million and the total payment of interest was USD 498,970 equivalent to Rs. 190.68 million as at 31 December 2023, the value of payable interest was USD 110,485 equivalent to Rs. 42.22 million was not disclosed in the statement of financial position in the year under review. | 42.22 million | Due to the fact that there was no any allocation provided in the PAM for loan interest accounting in the year 2023, it was not made a discloser in the annual project financial statements 2023. Furthermore, since the loan period of the project has been lapsed by 30.06.2023, there is no any legal background to account unaccounted loan interest by the project in future too. | Accounts should be prepared in accordance with the Sri Lanka Accounting Standards. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

| Component | Audit Issue | Response of the Management | Auditor's Recommendation |
|--|---|---|---|
| (a) Consultancy, Feasibility Study and Detail Design of the Project. | The main objective of the Colombo Suburban Railway Project (CSRP) was to develop Sri Lanka Railways in the Colombo suburban region to ensure its contribution to the National Transport system for next 20 years. ADB had already disbursed USD 8.52 Million equal to Rs.1,551.3 Million to the Project as at 31 December 2023 and 95 per cent of this disbursed amount | Feasibility studies and detailed planning reports related to the project have been prepared and handed over to the Sri Lanka Railways Department, the Ministry of Transport and Highways and the National Planning Department by 30 April 2021. This concludes the task belonging to this project | Formulate project for the development of relevant Railway Line as soon as possible. |

equal to Rs.1,469 million has been paid as consultancy services for Feasibility Study and Detail Design, Consultancy Service for Smart Ticketing Project and Consultancy service for International Railway Operation Expert- Hans. The reports related to this Project had been prepared and handed over to the Line Ministry in March 2021 and even though more than 2 years had lapsed, it was observed that the use of those reports for the future development of the Railway System has been minimal.

and the implementation of the project is not recognized as project tasks.

(b)The loan interest

According to the agreement, it was proposed to complete the Project and hand over on 31 December 2022, and the Project had completed the utilization of the ADB loan related to the CSRP on that date. But due to the fact that the other parties who obtained the facilities under the loan agreement had not utilized the funds completely, the interest cost had continued. Even though the work was completed, by the end of year under review, the interest cost of US\$ 102,087.41 had been charged to the Project.

As per the terms of the Plans and agreements Asian Development Bank for project costs should be prepared according to each component. loan agreement, the loan interest expense shall be accounted for under the project until the date of closure of the project. USD 102,087.41 was assigned to the CSRP project as loan interest in the reviewed year accordingly.

(c)Smart Ticketing and Seat Resonation System

Under the Colombo Suburban Railway Efficiency Improvement Project (CSREIP), Smart Ticketing and Seat Resonation System for the railway service is currently being implemented as a sub-project. The cost of Rs.19 million as consulting service fees for that sub-project was borne by the Colombo Suburban Railway Project (CSRP) based on approval of Cabinet of Ministry . Although this Project should be implemented

This project employed consulting services for the Smart ticketing and seat reservation system to prepare the tender documents for the purchase of the system. The relevant local and foreign consultants duly completed the relevant works and using the bid documents, bids were invited and a contractor was selected Complete the project as soon as possible.

within 03 years from the 17 under International September 2021, it is observed in Competitive Price (ICB) audit that the expenditure made for and the contract is in this sub-Project has become progress. fruitless since the Sub Project had not been achieved the expected progress.

3.2 Contract Administration

| Audit Issue | Response of the Management | Auditor's Recommendation |
|---|---|--|
| <p>Housing units required for the resettlement of families living in the Right-of-Way (RoW) along the Kelani Valley Railway Line for the development of the Kelani Valley Railway Line under the Colombo Suburban Railway Project (CSR). Urban Development Authority (UDA) and Ministry of Transport (MoT) had entered into seven memorandum of understanding (MOU) in the year 2017 and 2018, relating to the terms and conditions regarding the expansion of Kelani Valley Railway Line. According to the agreement, the relevant housing units had to be completed and handed over to the project within two years from the date of the agreement.</p> | <p>Construction progress of housing units is 89% as at 29 February 2024. A letter had submitted to the UDA to arrange for the extension of the MOU for another 6 months due to the inability to achieve the progress of the housing units within the agreed period of extending the days due to the electricity crisis in the country, fuel shortage and the public protests in the country. It is hoped that the remaining 11% construction work will be completed within that period.</p> | <p>Resettlement activities should be carried out without delay to achieve the project objectives as planned.</p> |
| <p>(a) Although Memorandum of Understandings (MOU) were signed with the Urban Development Authority (UDA) to purchase of 1244 housing units for 5,412 million, 406 housing units from Nawala Phase 01 and 144 units from Nawala Phase 02 Complex had not been handed over yet due to the constructions were not completed. A sum of Rs.502 million had been paid as at 31 December 2023 for the 144 housing units purchasing from Nawala Phase 02 Complex.</p> | | |
| <p>It was observed that those housing units could not be delivered on the contracted date of 31 March 2024 due to the physical progress of those housing complex construction was 80 per cent and 39 per cent.</p> | | |

- (b) Because of the construction of the housing complex Nawala Phase 01 has been temporarily stopped and UDA had decided to adjusting the price variance after restart the construction and there will be a risk of price increase in an housing unit from 5 Million to 10 Million according to the letter dated 03 January 2024.
- Although MOUs had been signed to acquire the 406 housing units that were to be provided through Nawala(Phase1) complex, the construction work has been stopped due to a legal issue with the UDA and the relevant construction company. The UDA on 10/08/2023 stated that those houses cannot be provided by 24 March 2024, and the price of a housing unit will increase to Rs.10 Million according to the price variation of a housing unit that had agreed to provide an amount of Rs.5 Million.
- According to the re-survey, only 100 more housing units are required to complete the resettlement works from Maligawatta to Padukka on the KV line. Accordingly, after the Ministry made a decision regarding the prices set up to get 100 houses out of 406 It was also decided to get the relevant housing units.
- Project should be restarted and manage to minimize the construction cost.
- (c) According to the initial MOU,s the construction of the housing complex should be completed within 02 years from the agreed date and handed over to the Project. Because of delays in the construction, the completion date of the housing projects have been extended three times from year 2018 and new MOU,s have been entered into. It was observed that due to the resettlement of families is further being delayed; objectives of the development of the Colombo Suburban Railway System had not been achieved.
- Due to the crisis situation, the contractual period had to be continuously extended and arrangements are being made to extend the date of completion by another 06 months.
- Resettlement activities should be carried out without delay to achieve the project objectives as planned.