

Colombo Suburban Railway Efficiency Improvement Project - 2025

The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project for the year ended 31 December 2025 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 4.02(a) of the Loan Agreement No. 3806 (SF) dated 20 August 2019 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 (MOT) is the Executing Agency and Department of Railway is the Implementing Agency of the Project. The objectives of the Project are to improve efficiency, sustainability, and safety of the railway network comprise following outputs Operational efficiency Improved, Maintenance capacity strengthened, Railway safety improvement, technical training centre upgraded and Project implementation capacity and readiness to future railway project strengthened. The activities of the Project are implemented under the activities of the Project are implemented under 31 components.

As per the Loan Agreement, the estimated total cost of the Project was USD 134.22 million equivalents to Rs.40,186.81 million and out of that USD 125 million equivalent to Rs.37,426.25 was agreed to be financed by Asian Development Bank (ADB). The balance amount of USD 9.22 million equivalent to Rs.2,760.56 million is expected to be 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. However, the date of completion of the activities of the Project had been extended up to 31 December 2026 and loan closing date of the project was 30 June 2027.

1.3 Qualified 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 2025, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in the paragraph 2.1 of this report.

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 qualified 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

	Accounting Deficiency / Audit Issue	Amount Rs.	Response of the Management	Auditor's Recommendations
(i)	Prior Year adjustment of Rs.24.85 million relating to the project expenses had not been recognised as project activity cost. As a result,	Rs.24.85 million	This is a Prior year adjustment. The reasons for the difference is cancellation of the VAT payment of feasibility study	Correct value should be accounted.

assets of the financial statements in the year under review had been understated by similar amount.

and detail design of the Kandy Suburban Railway Project. Adjustment is correct in the financial statements.

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| (ii) | Expenditure relating to the previous year amounting to Rs.27.88 million had been accounted for in the year under review. As a result, operational efficiency enhancement expenditure for the year under review had been overstated by similar amount. | Rs.27.88 million | Action has been taken to make provisions at the year ends of the project financial statements in the year 2026 onwards. | Expenditure relevant to the financial year should be accounted. |
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2.2 Unreconciled Balances

	Value as per Financial Statements	Value as per corresponding records	Description of the corresponding record	Response of the Management	Auditor's Recommendations
(i)	USD 81.07 million.	USD 83.50 million.	Detailed reconciliation of loan funds regarding the funds received from the ADB.	The reason for the difference is the unaccounted expenditure against advance obtained in the ADB LIFS system.	Correct value should be accounted.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2025	Delay/ Audit Issue	Reasons for delays
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage	
Overall physical Performance of the project	31 Activities	100 percent	From 30 percent to 100 percent	• Approval delays. • Implementation challenges.

and with due date of 31 December 2025, 03 tasks worth Rs.2,312,347,053 had not been any financial and Physical Progress, 04 tasks worth Rs.9,324,885,477 had not been completed and their physical progress was in the range of 30 percent to 97 percent and Financial Progress was in the range 0 to 51. And although the physical progress of 04 tasks with an estimated value of Rs.1,154,868,921 was 100 percent, financial progress of those activities was in the range of 59 to 79 percent, was cause to increase the commitment charges under the financial chargers of the project.

- Milestone-based payment arrangements.
- Delayed contract signing, or ongoing procurement processes.
- Corresponding payments deferred due to contractual conditions, pending milestones, or final acceptance requirements even though contracts achieved substantial or full physical progress.

Response of Management	the	The disparity between physical and financial progress in 2025 was mainly due to approval delays, implementation challenges, and milestone-based payment arrangements. Some contracts recorded no financial progress because of delayed contract signing, or ongoing procurement processes. Other contracts achieved substantial or full physical progress, but corresponding payments were deferred due to contractual conditions, pending milestones, or final acceptance requirements. Consequently, financial progress did not fully reflect the actual level of physical implementation achieved during the year.
Auditor's Recommendations		Project activities should be well planned and complete within the target date without delay.

3.2 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	Basis for determining the scope of the project.		
	Working according to project objectives and priority plans.		
	Allocated USD 160 million in 2019 from the Asian Development Bank loan funds was reduced to USD 125 million in 2021 due to the economic crisis. Since the		

target of the project was not completed as planned on 31 December 2024, the project period was extended up to 31 December 2026.

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| <p>(a) Activities of the CSREIP scheduled to be completed by 31 December 2024 and the project period had been extended up to 31 December 2026 due to the slow progress of the several activities of the project and resulting of that the project interest had been increased from USD 7.96 million to USD 16 million by 100 percent and the commitment charges had been increased from USD 0.74 million to USD 1.03 million by 39 percent and total financial charges had been increased from USD 8.71 million to USD 17.03 million by 96 percent. Accordingly compared to the year 2019, the financial cost has incurred an additional cost of USD 8.32 million and the financial cost of the project has increased from 7 percent to 14 percent of the total loan amount and the funds available for development activities had to be used to cover the project financial cost.</p> | <p>As of 31 December 2024, the project had achieved approximately 80% physical progress and 55% financial progress. Therefore, it is not accurate to conclude that the entire project was progressing slowly. While two major activities experienced delays. Apart from these issues, the majority of contracts were successfully completed during this period. Further, the project extension was granted based on these circumstances, and the decision to utilize the remaining loan funds for the development of Fort Railway Station was made by the Government.</p> | <p>Objectives of the project should be achieved.</p> |
| <p>(b) At the beginning of the project in 2019, USD 30.58 million was allocated for the works of increasing train maintenance capacity, improving train operation and passenger safety and improving training centers and staff training and development. However, those long-term beneficial capital asset procurement and human resource development activities had been completely eliminated on 31 December 2025 and USD 2.06 million had been allocated for short-term capital maintenance, USD 8.32 million to cover increased financial costs, and USD 9.6 million for consulting services.</p> | <p>During the economic crisis period, part of the loan amount was repurposed for emergency assistance. Consequently, the loan allocation was reduced, and the Sri Lanka Railways reprioritized project activities for implementation. As a result, the Training Centre Development component was deprioritized, while the Workshop Development component was given priority due to the maintenance is the crucial factor for running the train service. The remaining funds were allocated to smaller-scale activities.</p> | <p>Core mission of the project should be achieved.</p> |

(c) The consultancy service for the preparation of detailed plans for the development of the Kandy Suburban Railway, which was planned to be completed in 18 months from 28th November 2019 using USD 6.30 million, had been suspended by the consultancy company in the year 2023 after spending Rs. 694,352,490 for a period of 5 years as on 31st December 2025 under the output 5. This sub-project, which was planned under the project with the objective of contributing to the development of the transport sector by providing sustainable solutions to the traffic congestion in the Kandy urban area through the development of the upcountry railway, had been stopped without achieving the desired objectives and the direct cost incurred for it as well as the financial cost incurred due to delays had so far been a waste of money.	The consultancy contract commenced during the COVID-19 pandemic, which significantly affected the mobilization and performance of international consultants. Although work commenced during the pandemic period, the Government subsequently suspended contract implementation. Thereafter, the economic crisis further impacted on the consultants' ability to carry out their assignments. As a result, the international consultants were unable to complete the required deliverables within the original contract period, necessitating an extension of the contract. At present, all parties, including the Consultant, the Ministry, and ADB, have completed negotiations, and the consultancy services are expected to recommence upon signing the addendum of the contract.	Re-start to achieve the objectives and minimise the fruitless expenses.
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(d) Although it had been decided to implement two new advisory services for the financial sustainability and operational efficiency of the Railways Department under the project, as per the Asian Development Bank (ADB) Mission Report dated 21 February 2025 and the Project Operations Manual - 2025, the procurement plan for the year 2025 had not been amended accordingly.	Agreed. Certain consultancy assignments were not implemented as the original requirements. Accordingly; several individual consultancy requirements were cancelled with the approval of the Project Steering Committee.	Guideline should be followed.
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(ii) **Procurement for the supply, installation and commissioning of a Diesel Generator (150 kVA and with soundproofing) for the Sri Lanka Railway.**

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| <p>(a) Procurement process had been started in July 2020 under the request of quotation method and taken 27 months to call for quotation, 09 months to evaluate the bids, and thus 36 months taken to complete the procurement process. Bids had been re-called under the national competitive method on 14th February 2024. Then evaluated and the contract awarded to the bidder who responded satisfactorily at a price of Rs.12,791,351 on 09th July 2024. Due to the failure of select the proper procurement method for calling bids and the delay in the bid evaluation process, an extraordinary period of 48 months had been taken to award the contract accordingly.</p> | <p>Initially launched in 2020 as part of an Asian Development Bank (ADB) funded project to upgrade the German Railway Technical Training Centre in Ratmalana, the procurement of a 150 kVA generator faced multiple delays due to non-responsive local bids, COVID-19 disruptions, and a 2022 economic crisis that forced the restructuring of project funds. Despite the broader project being halted, the generator procurement was pushed forward under ADB guidelines, and was re-bid. Following the issuance of the Letter of Acceptance the contract underwent a lengthy amendment and review process involving the Ministry, Attorney General clearance, and final approval from the ADB on January 21, 2026, ending in the official signing of the agreement on February 11, 2026.</p> | <p>Procurement should be complete as scheduled.</p> |
| <p>(b) In accordance with Section 8.9.1 (b) of the Government Procurement Guidelines, a formal written contract agreement must be signed for goods or services exceeding Rs.500,000. Also, as per 42.3 of the Instructions to Bidders included in the bidding documents for this procurement, the notification of contract award is a binding contract until a formal contract is prepared and executed, and the Purchaser must immediately send the contract agreement to the successful bidder after the notification of contract award and sign it and send it to the Purchaser within 28 days of receipt. However, although 13 months had passed since the award of the contract to the supplier on 21 October 2024, a contract agreement had not been entered into as</p> | <p>Following contract award and contract signing, a Contract Management Plan is required to be prepared and updated, incorporating any amendments, for the effective implementation and monitoring of the contract. The contract signing is the problem of this period. It has taken several months to clear from AG's department and ADB. Now the contract near to be completed.</p> | <p>Contract agreement should be signed just after awarding the contract.</p> |

per the said clauses as at the date of audit. Furthermore, the specific date on which the relevant supply should be delivered as per the content of Section 6, item 2 included in the bidding documents relating to the contract had not been mentioned.

(iii) **Procurement for the design and construction of the Ratmalana Railway Diesel Unit (DMU) Factory.**

An agreement has been signed with a foreign contractor with the approval of the Standing Procurement Committee appointed by the Cabinet for the design and construction of the Ratmalana Railway Diesel Unit (DMU) Factory at a contract value of Rs.2,040,693,262 equivalent to USD 2,776,449.44 to be completed within 365 days. The following observations are made in this regard.

- (a) In accordance with 2.3.1(b) of the Government Procurement Guidelines, it should be ensure the all necessary action have been completed for the smooth implementation of the project by the Procurement Entity. The contract for this construction at the Ratmalana Workshop premises was signed with the contractor on 27 December 2023 and the proposed premises should be cleared in accordance with the said terms for the contractor to commence work. Although the General Manager of the Railway Department had been informed on several occasions since December 2023 to clear the premises for the proposed construction site even before the signing of the contract agreement in order to avoid any contractual obligation arising due to delays. But the contractor was abstract for completing the construction work due to the improper cleaning and delays.
- The site clearance and demolition works were initially divided between the responsibilities of Sri Lanka Railways and the Contractor. Certain site clearance activities required the coordinated efforts of both parties, and delays occurred due to challenges in completing these activities in a timely manner.
- Construction site should be cleared to inaugurate the construction.
- Nevertheless, the delay in clearing the site did not affect the implementation of the Contract, as the Contractor utilized this period to obtain the necessary approvals and clearances from the Urban Development Authority (UDA) required for the commencement of construction works.

(b) Five foreign manufacturers had been recommended with the approval of the Railway Department to supply two overhead cranes for the factory. Although the contractor had sought approval for the purchasing from the one of manufacturer on 21 January 2025, the approval for the same had been delayed until 24 June 2025 and resulting in delays the supply and installation of the cranes.	Agreed. Over an extended period, the Contractor submitted several requests proposing changes to the suppliers and countries of manufacture. As a result, the proposed crane specifications were referred to Sri Lanka Railways in January 2021 to verify whether they fully complied with the requirements specified in the bidding documents. The Department took approximately five months to complete its review and provide its final determination.	Approval should be submitted without delay.
(c) The entire work worth Rs.2,040,693,263 should have been completed by the 27 December 2024 in accordance to the agreement, the contract period was extended on several times and an extension of 2 ½ years (30 months) was granted due to delays by the project management, the Railway Department and the contractor, the contract should be completed on 27 July 2026 accordingly. Although the expected physical progress of the project was 85 percent by February 2026, the actual physical progress was only 63 percent.	The construction of the Railway DMU Workshop at Ratmalana experienced delays due to labour shortages and adverse weather conditions, which affected the progress of key construction activities and consequently slowed physical progress. The contractor submitted a revised catch-up plan incorporating additional resources and accelerated work schedules. Following its implementation, 73% physical progress has achieved as of now.	Targeted project progress should be achieved

3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(i) Although Rs.11,475 million and Rs.50 million were allocated for the project as the Asian Development Bank funds and Government of Sri Lanka funds respectively in the annual budget estimates in the year under review, the actual expenditure was Rs.5,623.26 million and Rs.14.84 million respectively, resulting the amount of Rs.5,851.74 million (51 percent) and Rs.35.16 million (70 percent) underutilization of the budgeted allocations. Accordingly, it was not observed that	We already prepared the disbursement schedule as per the action plan and the allocated Budget. As you observed there may be a deviation, due to	Budgetary allocations should be utilized efficiency and effectively.

the budget document used as an effective control tool, which was designed to efficiently utilize the loan funds of ADB allocations and Government funds with financial and opportunity costs by the project. performance of the contractors.

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| <p>(ii) As per the loan agreement, borrower should pay the project-related performance fee which is payable as a percentage of 0.15 percent based on the lack of efficiency in utilizing the loan facilities provided by the Asian Development Bank. Accordingly, the budgeted commitment charges made by the ADB for the year under review was USD 70,000, however the actual commitment charge was USD 91,395.82 equivalent to Rs.27,385,259 as at 31 December 2025 and excess commitment charges was USD 21,395.82 equivalent to Rs.6,416,235.</p> | <p>Audit Observation is correct.</p> <p>This has happened according to the poor performance of the contractors as per the planned schedule.</p> <p>Accelerate the progress of the project to minimise the commitment chargers.</p> |
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