

Transport Project Preparatory Facility functioned under the Colombo Suburban Railway Project - 2025

The audit of financial statements of the Transport Project Preparatory Facility functioned under the Colombo Suburban Railway 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 4.03(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 component namely provide consultancy service for carrying out Feasibility studies and prepare of detailed Designs for the development of Colombo suburban railways. As per the Loan Agreement, the estimated total cost of the Project was USD 11.36 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 completion of the activities of the Project had been extended up to 30 June 2023.

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 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	Amount Rs. million	Response of the Management	Auditor's Recommendations
As per the statement of changes in equity, the net asset value as at 31 December 2025 was Rs.5749.10 million. However, it had been shown as Rs.5712.53 million in the financial position. Therefore, a value of Rs.36.57 million difference had been observed between those balances.	36.57	The difference of Rs.36,566,488 is the loan interest for prior periods which has been adjusted and recorded in the statement of changes in Equity for the year end 31 December 2025 which is correct.	Difference should be identified and accounted correctly in the statement of financial position as at the end of year 2026.

3. Physical Performance

3.1 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
3.1.1	Resettlement activities funded by GOSL		
	(a) The physical progress of the construction of the Nawala Phase 01 Housing Complex is 39 percent. Due to the temporary suspension of its construction activities for more than 03 years, the contractual value of a housing unit after the resumption of construction will increase from Rs. 5,000,000 to Rs.10,000,000. Due to this, the Cabinet approval was received on 17 March 2025 to pay Rs.10,000,000 each for 100 houses instead of 406 housing units. Even though the said Memorandum of Understanding was drafted 06 months after the approval was received and forwarded to the Ministry of Transport on 06 November 2025, no steps had been	Although the approval had been granted from cabinet approval No. AMP/25/0371/809/031 and dated 17 March 2025 to purchase 100 housing units from the Colombage Mawatha Phase I Housing Project of UDA, UDA indicated that these 100 units could only be handed over by 30 June 2028, upon completion of construction, at a revised rate of Rs.3.58 million per unit as per the forwarded draft MoU. However, since the project duration is scheduled to terminate in June 2027, the resettlement activities cannot be executed within the project period. Therefore, as per the instructions of the Hon. Minister of Transport, a discussion was held on 21 November 2025 regarding the acquisition of	Action should be taken to enter MoU and complete the resettlement activities.

taken to enter into a Memorandum of Understanding even by February 2026.

houses from the housing project being constructed in the Maharagama area under the Chinese-funded Housing Project. Although the Cabinet approval was granted on 17 March 2025 to enter the MoU with the UDA, due to the necessity of completing other connected activities, the required steps were pursued during the preceding period, and plans have been made to complete the afore mentioned matters expeditiously to execute the MoU.

- (b) Although Rs.544,320,000 or 95 percent of the Rs.576,000,000 due for the houses in the Nawala Phase 02 Housing Complex had been paid by the end of the year under review, 144 housing units had not been handed over to the project so far due to the incomplete sewage system.

Since there are no other apartment complexes available in the vicinity of the project area to resettle the residents of Kelani Valley (KV) Railway Reservation, the project had to extend the MoU of this apartment complex on several occasions as the housing units had to be obtained from apartment complexes owned by the UDA itself. The construction work of these houses has been completed, but since the construction of the sewerage system is being executed by the UDA, the project cannot directly intervene in it. As the ability to acquire the houses according to the scheduled timeline has become a matter beyond project control, future activities must proceed in accordance with the MoUs

Action should be taken to mitigate the adverse impact on the project due to failures of the contractor.

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| <p>(c) Ministry had not taken appropriate steps regarding the Urban Development Authority's failure to act in accordance with the agreements, and although the completion date of housing projects had been extended on several occasions since 2018 and new MoUs had been signed in 2022, the resettlement of families within the Kelani Valley Road rights-of-way had not been completed by the end of 2025.</p> | <p>According to the agreement, Memorandums of Understanding (MoUs) had been signed to purchase 384 housing units. However, based on a government policy decision, 144 of these housing units were allocated to provide residential facilities for the University of Colombo. As a result, a new MoU had to be entered into on 25 March 2022 to re-acquire those 144 housing units. Accordingly, an MoU was signed to provide 144 housing units from the Colombage Mawatha Phase II Housing Project. Although the construction work of the housing units had been completed as per the contract, the handing over of the housing units to this project was delayed due to delays in providing infrastructure facilities (sewage disposal system/septic system). Therefore, since the Urban Development Authority (UDA) has agreed to hand over the houses as soon as those works are completed, steps have been planned to extend the validity period of the relevant MoU. Hence, the delay caused by extending the said period was a matter beyond the control of the project.</p> | <p>Action should be taken to mitigate the adverse impact on the project due to failures of the contractor.</p> |
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3.1.2 **Resettlement of unauthorized occupants of the Kelani Valley Railway Reserve through compensation payments.**

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| <p>(a) Among the affected families, the benefits of 219 families had not been determined by the Entitlement Assessment Committee (EAC) by the end of the year under review and the benefit values of 05 families had not been assessed.</p> | <p>Out of the 69 family units in Seewalipura to Pengiriwatta, the Department of Railways is handling 33 leased structures, while decisions have been finalized for 7 files via the Entitlement Assessment Committee (EAC), 16 structures await new housing at Colombage Mawatha Phase II, 10 of 11 approved structures have received development value payments (with one refusing consent), and the final two structures face legal</p> | <p>Action should be taken to give compensation & complete the resettlement activities without any delay.</p> |
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removal or pending EAC submission. Meanwhile, in Pengiriwatta to Padukka, 145 files have been submitted to the EAC—including 3 undergoing further review following National Level Grievance Redress Committee recommendations. Additionally, the number of structures in Section IV requiring Government Valuation Department assessment has been corrected from 6 to 5. Since the valuation reports for the said structures have not been received to date, the Valuation Department has been appraised regarding the matter.

(b) Action had not been taken by the end of the year under review regarding the eviction of 18 families who had been decided to be given the development cost of Section IV of Phase 1 and 04 families who had agreed to self-resettlement.

Out of the 22 structures in the section from Pengiriwatta to Padukka for which the development cost was to be paid, payments for the development value have been finalized for 18 structures. Regarding the appeals submitted for 02 structures, recommendations must be obtained by referring them to the National Level Grievance Redress Committee. In addition, the affected persons of 02 structures have not consented to receive the benefits. Furthermore, out of the 04 structures that were under self-relocation, payments have been finalized for 03 structures, and the final decision for one structure was taken by the Entitlement Assessment Committee held on 05 May 2026. Accordingly, entitlements are scheduled to be granted for the said structure in the future.

Action should be taken to give compensation & complete the resettlement activities without any delay.

(c) There were unresolved issues regarding 101 housing units, including 26 families due to litigation, 66 houses constructed by the National Housing Development Authority (NHDA) and 9 houses due to the land ownership being held by both

There are still 14 structures left to be removed from among the family units referred to the Department of Railways for legal action, in order to evict unauthorized settlers and structures continuing to remain within the railway reservation while rejecting the benefits approved under this

Action should be taken to give compensation & complete the resettlement activities without any delay.

Department of Railway and the Colombo Municipal Council. Thereon, the resettlement and land acquisition activities had not been completed by the end of the year under review.

project. Furthermore, the land acquisition process regarding the structures located on land plots belonging to the National Housing Development Authority and the Colombo Municipal Council has been handed over to the Department of Railways to be carried out under the land acquisition procedure.

- (d) The delay in the resettlement of the affected people has further delayed the development of the railway line, which has led to the risk of unauthorized constructions occurring again in the railway reserve that was released after paying compensation, the delay in assessments and acquisitions has led to additional costs and a continuous increase in project administration costs.

After providing benefits to the unauthorized settlers residing within the railway reserve, the land has been handed over to the Railway Department

Action should be taken to given compensation & complete the resettlement activities without any delay.