

## **Colombo Suburban Railway Efficiency Improvement Project Functioning under the Colombo Suburban Railway Project - 2020**

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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 2020 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**

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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**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

### **1.4 Basis for Opinion**

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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**

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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

Description	Amount Rs.millin	Response of the Management	Auditor's Recommendation
ADB fund amounting received for to this Project during the year under review had been transferred	63.5	This fund transfer will not be made any impact on the loan	Action need to be taken to show actual Budgetary provision in the financial

to the other project called Colombo Suburban Railway Project. As a result Annual Budgetary Provision of the Government of Sri Lanka shown in the financial statements had been understated by that amount

balance as at 31 statements.  
December 2020

## 2.1 Unsettled Balances

<b>Audit Issue</b>	<b>Amount Rs.millin</b>	<b>Period unsettled</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The Project had been formulated for the preparation of a detailed plan of the Kandy Suburban Railway valued at US\$ 2,642,014 equivalent to Rs.194 million and mobilization advances amounting to Rs. 49 million had been given to the contractor of the project. Later the project component was suspended in 31 December 2020. However, balance of the mobilization advance had been remained in the financial statements without being settled.	49	18 months	According to Cabinet decision dated 09.05.2018.mobilization advance and the project was suspended and after evaluation by ERD project activities re-commenced from 30.04.2021.	Cabinet decision is to be considered when implementing whole the proposals.

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

<b>Reference to the Laws Rules and Regulation</b>	<b>Non- Compliance</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Department of Management Services Circular No. 01/2019 of 05 March 2019	Colombo Suburban Railway Project had been launched at a cost of US\$ 11 million on 28 October 2016 Therefore, the salaries and allowances for the staff of the Project should be paid as per the Circular of the Department of Management Services. However, the CSRIP project which	Loan agreement was signed and funds were made available under REIP, Finance code – 12 for development activities and for the project management	Should be comply with the Department of Management Services Circular

was launched on 20 August 2019 by employing the same staff of old project and the Staff salaries and allowances were paid in previous years for the old project period at a rate of new project amounting to USD\$ 160 million.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	as at 31 December 2020		Audit Issue	Reasons for delays
	Expected physical Performance Units/ percentage	Performance achieved Units/ percentage		
Investment Cost	27 percent	17 Percent	Out of 15 component expected to be implement under the Project, Island wide telecommunication system had only been commenced during the period of the Project.	Delays in awarding of contracts
<b>Response of the Management Auditor's Recommendation</b>	Not Comment			
	The activities of the Project need to be expedited			

#### 3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The estimated cost of the Project Management Unit of the Colombo Metropolitan Railway Efficiency Improvement Project for the period from 2019 to 2024 was US\$ 2.33 million. However, the Project Management Unit had spent US\$ 0.83 million by exceeding	As the both projects have been handled by same PMU it was exceeded the PMU cost slightly	Project expenditure component should be made according to the Project Administration Manual as well as loan agreement.

estimated amount of US\$ 0.69 million for 2 years period.

- (b) Contrary to the recommendations of the final report of the Initial Feasibility Study relating to the Panadura – Veyangoda, US\$ 89.15 million had been allocated for 13 additional new activities under the Railway Efficiency Improvement Project without considering the priorities commencing the operations on 20 August 2019.
- Development interventions in the pre – Feasibility study Report is not an approval for carrying out the development.
- Base on the Feasibility Study Report, priorities should be identified and the Finance agreement need to be reviewed by the officers with specialized knowledge
- (c) Based on the observations given by the Minister of Finance and Mass Media the Cabinet of Ministers had been granted an approval to 04 proposals of the Cabinet Memorandum dated 16 May 2018. However, contrary to the above approval of the Secretary to the Ministry of transport had been signed an agreement with the ADB for another 13 sub proposal by allocating US\$ 62.79 million.
- The list of Development Interventions to be included in REIP have further been discussed at ADB mission meeting with SLR, MOT, ERD etc.
- Cabinet Decision need to be considered on allocation of finance for work proposals

### 3.3 Management Inefficiency

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<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The project had incurred a commitment charge of Rs. 34 million for the underutilization of fund allocated for the period.	Commitment charges had to be incurred due to following reasons such as objections raised by the trade union changes in ministerial portfolios, delay in achieving the expected procurement target circular issued by the Secretary to the Treasury.	Expedite the activities of the Project to minimize the additional cost.

### 3.4 Matters in Contentious Nature

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<b>No</b>	<b>Audit Issues</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	According to the cost analysis of the Project, a sum of Rs.3,632 million had been allocated to implement the Island Wide Radio Telecommunication System	In order to obtain a clear idea about train delays, the amount of delays in minutes under each delay category needs to	Re-consider the socio-economic cost benefits analysis and economic viability with the help of the offices who experts in

(IRTS) to achieve efficiency and safety of railway operations. However, the Project had not considered the other reasons affected to train delays identified in the analysis.

be considered.

similar field in locally.

(b) According to the Socio-economic cost benefits analysis made by the Department of National Planning, the travel time saving due to the reduction of delay time of trains have been taken into consideration. However, it was further observed that the main cause for the train delay the cautions was imposed, due to lack of insufficient ballast, week rail and insufficient sleepers.

All the factors considered by the NPD in preparing the Socio-economic cost benefit analysts are not visible from the calculation sheet of the NPD. Further, the way & works cautions is not the main cause for train delays.

Re-consider the socio-economic cost benefits analysis and economic viability with the help of the offices who experts in similar field in locally.

(c) It was observed that a sum of Rs.4,502 million had been allocated to implement the Ticketing System. However, enhancement of the efficiency of railway operations cannot be ruled out without being laid the foundation for the electrification of the railway lines.

ADB's Economic analysis of REIP, had considered the practical growth of 5.5 % annually. Both analysis have not considered passenger growth after Development (after electrification)

Foundation for the electrification of Railway line should be completed prior to ticketing system.