

Transport Project Preparatory Facility Functioned under the Colombo Suburban Railway Project - 2020

The audit of financial statements of the Transport Project Preparatory Facility Functioned 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 Section 04.03 (a) Of Article IV 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. 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 readiness of the priority Transport Project. The activities of the Project are implemented under one component namely to provide consultancy services for designing of Kelani Valley railway line for improvement. As per the Loan Agreement, the estimated total cost of the Project was US\$ 11.36 million equivalent to Rs. 1,853 million and out of that US\$ 9.69 million equivalent to Rs.1,405.05 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 448 million is 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.

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 2020, 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. Physical Performance

2.1 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		
Consultancy service report of -the Feasibility studies Final Report -Draft Final Report and Bidding Document for Colombo to Rambukkana, Colombo to Kaluthara, Ragama to Negambo.	100	80	Delays in Performance	<ul style="list-style-type: none"> Some issues raised by IESL due to non - availability of IESL representative for the relevant meetings and objections by the IESL members with regard this development and considerable time period taken by consultants to submit his clarification. as well due to COVID -19 pandemic period there is no possibility to carry out field works as well to get the imperative foreign experts.
Response of the Management	Which such delay PMU had to inform to the MOT and ADB to get the time extension from January 2021 to April 2021 without any financial cost. After all these issues it was possible to collect all reports with regard the four lines coming under this consultancy during the extended period.			
Auditor's Recommendation	The activities of the Project need to be expedited.			

2.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The Project is implemented to provide consultancy facilities for designing of Kelani Valley railway with an estimated cost of EURO 256,030 and US\$ 6.48 million and equivalent to Rs. 379.21 million. However, out of 10 consultant reports which had to be submitted within the financial year under review, Final Feasibility report for KV Line, Draft Final report and Bidding Documents for Colombo to Rambukkana, Draft Final report, Bidding Documents for Colombo to Kaluthara and Draft Final report and Bidding Documents for Ragama to Negambo reports had not been completed up to 31 December 2020. As a result the expected outcome had not been obtained in terms of the consultancy agreement as at 31 December 2020.	As per the agreement sign on 13 December 2017, the output report has to be submitted by end of the year.	The reports required by the project should be submitted by the consultant to get the expected benefits of the project.
(b)	An allocation amounting to Rs. 9,600 million had been done in the Annual Budgets during the period of 2018-2020 to resettle the number of 2,036 unauthorized occupants at both side of the Kelani Valley Railway Line, within three years period. However, only 386 housing units had been handed over for them as at 31 December 2020. Accordingly, constructions had not been implemented to achieve the expected targets.	It was a fundamental requirement to resettle the railway ROW in order to provide the funds for construction work.	In accordance with the Cabinet decision constructions should be accelerated.

2.3 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Eventhough the Resettlement Activities and Seat Reservation System were not come under the preview of the project objectives, a sum of Rs. 4.83 million for Seat Reservation System and Rs.77.14 million for preparing a resettlement plan had been paid by the Project and Those expenses shown as project expenses in the financial statements.	In order to obtain consultancy services for preparation of design and bid documents for railway smart ticketing and seat reservation system, which is to be implemented under REIP and expenditure Rs. 4.92 million has been incurred.	Need to be review the scope of the activities of the Project and to apply the circular instructions accordingly.

2.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
The estimated cost of the Project Management Unit of the Colombo Suburban Railway Project for the period of 5 years is US\$ 0.50 million. However, Project Management Unit had spent US\$ 665,351 which had exceeded the estimated amount for the period by US\$ 165,351 equivalent to Rs. 30,822,782 during the two years.	It has been approved retroactive finance facility under REIP project so it was immediately stop the exceeding PMU cost when we identified that PMU cost was exceeding the forecast amount of 0.5 US Dollars.	Expenditure should be made in accordance with budget allocation made in Project Administration Manual.