

Light Rail Transit Project - 2020

The audit of financial statements of the Light Rail Transit 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 Section 18 of the Annex II of the Project Memorandum dated 11 March 2019 entered into between the Democratic Socialist Republic of Sri Lanka and Japan International Corporation Agency. 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 of the Project, the Ministry of Urban Development and Housing is the Executing Agency of the Project. The objectives of the Project is to enhance the efficient transportation capacity and improve the service of the public transportation by introducing the Light Rail Transit (LRT) in the Colombo Metropolitan Area where serve traffic congestion due to the sharp increase in traffic demand is a major challenge, there by contributing to improvement of urban environment through reduction of traffic problem. As per the Loan Agreement, the estimated total cost for the project is JPY 246,641 million and out of total estimated cost JICA provide JPY 200,215 million equivalent to Rs. 286,839 million through six (06) tranches scheduled during 2019- 2024. As per the Tranche one (01) of the Loan Agreement, No SL – P119 the estimated total cost of the Tranche one was JPY 41,252 million equivalent to Rs.59,100 million and out of that JPY 30,040 million equivalent to Rs.43,037 million was agreed to be financed by Japan International Corporation Agency. The Project had commenced its activities on 25 March 2019 and scheduled to be completed by 31 December 2024.

1.3 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 2020 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 skepticism 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

No.	Accounting Deficiency	Amount Rs. Million	Responses of the Management	Auditor's recommendations
(a)	Contrary to Accounting Policy No. 01, the consultancy expenses amounting to Rs. 1,069.32 million related to previous year had been accounted on cash basis in the year under review.	1,069.32	No Comments	Consultancy expenses should be accounted on accrual basis as disclosed in the Note 01 to the financial statements.

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| (b) | The translating the foreign currencies using the spot rate revealed at the date of invoice, an exchange transaction difference of Rs. 102.97 million had been observed. | 102.97 | No Comments | Foreign current transactions should be translated by using the indicative exchange rate that was reported in the disbursement date. |
| (c) | The consulting fee payable for the months from July to December of the year under review amounting to Rs. 744.93 million had not been shown in the financial statements. Hence, the current liabilities of the Project had been understated for the year under review by that amount. | 744.93 | No Comments | Payable amount should be shown under the liabilities. |
| (d) | A mobilization advance amounting to Rs. 44.04 million paid to the Ceylon Electricity Board had been accounted for as expenses instead of being shown as a current asset in the financial statements. | 44.04 | No Comments | Expenditure should be shown under the current Assets. |

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

The following observations are made.

Component	Activity	Audit Issue	Reason for Delays	Response of the Management	Auditor's Recommendation
(a)	Land Acquisition	The progress of land acquisition was about 10 per cent as at the end of the year under review, due to none - identification of acquisition lands and lower supervision of land acquisition process	Issues on obtaining cabinet approval for the compensation schemes.	No comments	Sound and effective project management system should be implemented
(b)	PMU Activities (Action plan)	According to the Cabinet decision, the Action Plan, an Act and independent organization structure scheduled had not been completed up to end of the year under review.	Not reviewing the action plan to implement the activities.	No Comments	Actions should be taken to monitor the action plans.

(c) Consultancy service of preparation of bidding documents	Consultancy service	The end of the year under review the project had paid Rs.26.13 million to the consulting firm for the preparation and submission before the 30 th June 2020 of bidding documents. However, the bidding documents had not been prepared.	Not mobilizing of consultancy team as the plan	No Comments	Sound and effective project management system should be implemented to complete the project activities as per the scheduled time period.
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3.2 Matters in Contentions Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Eventhough the project had been suspended at the end of the year under review, the mobilization advances amounting to Rs. 36 million given to the Ceylon Electricity Board for initiating material processing for the utility line shifting from Malabe to Battaramulla and underground utility line shifting and underground cable tacking within Colombo city amounting to Rs. 8 million had not been recovered even up to July 2021.	No Comments	Corrective action should be taken to recover the advance immediately

3.3 Lack of Evidence for Audit

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Eventhough a sum of Rs. 21.43 million had been paid to 4 individual consultants, the report submitted by them and review reports had not been furnished to audit.	No comments	All the information should be submitted to the audit.
(b)	The journal vouchers and supporting documents relating to 114 journal entries valued at Rs. 3,419.52 million had not been furnished to audit.	No comments	All the information should be submitted to the audit.

3.4 Issue Related to Management Inefficiencies

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Due to terminating of project activities during the year under review, the consultancy firm had claimed US\$ 31.36 million including the receivable amount to them US\$ 23.65 million. In order to negotiate that matter, a committee had been appointed by the cabinet of Ministers on 23 February 2021.	No comments	Appointed Committee should negotiate the matter immediately.

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| (b) | It had been proposed to continue the project as a Public Private Participation (PPP) project by applying the consultancy reports given by the consultancy firm. However, a new project had not been commenced, eventhough one and half years up to the end of December 2021 had been over. | No Comments | Sound and effective project management system should be implemented in order to achieve the project objectives. |
| (c) | Due to the decision made to suspend the project in the year under review, a sum of Rs.102.73 million equivalent to Japan Yen 60.08 million which had being paid as a Front End Fee according to the loan agreement signed on 23 May 2019 on 0.2 per cent of total loan amount had been become fruitless expenditure. As well, in order to repay the loan amounting to Rs.4,622.45 million equivalent to Yen 2,703.18 to the Lending Agency (JICA) an agreement had not been signed with Leading Agency. | No Comments | Action should be taken to avoid unnecessary expenses. |
| (d) | Out of 16 consultancy report that scheduled to be handover up to end of the year under review, only 11 reports had been furnished by the consultants and only 7 reports had been reviewed by the project out of the received reports. Actions had not been taken to recover the delay charges from the delayed 5 reports according to the consultancy agreements, the provisions were not included to recover the damages. | No Comments | Corrective actions should be taken to expedite the remaining consultancy work and provisions should be included to the consultancy agreements in order to recover the damage. |
| (e) | As a long term solution for the heavy traffic congestion in Colombo, the Light Rail Transit Project had been commenced on 01 May 2017 under financial assistance of Japan. Accordingly, a sum Rs.5,545.63 million comprising a sum of Rs.4,622.45 million from JICA funds and a sum of Rs. 923.18 million from Treasury provision had been incurred on that project by the end of the year 2020. As the said project was expensive and not cost effective, it was informed through the Cabinet Decision, No.20/1450/312/002 dated 06 October 2020 that the project office to be closed and all the assets of the project to be handed over to the Ministry of Transport and Ministry of Urban Development and Housing. As such, the expenses incurred became fruitless. | No Comments | Proper Feasibility study should be conducted before implement the project. |