

## **Transport Project Preparatory Facility under the Colombo Suburban Railway Project - 2017**

---

The audit of financial statements of the Transport Project Preparatory Facility under the Colombo Suburban Railway Project for the first accounting year ended 31 December 2017 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 Article 1V Section 4.03 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.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, the Ministry of Transport and Civil Aviation is the Executing Agency and the Department of Sri Lanka Railway is the Implementation Agency of the Project. The objectives of the Project are to improve readiness of the Priority Transport Projects including the activities of development of feasibility studies and detailed engineering designs for Transport Projects and provisions of implementation support for the Transport Projects. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 11.36 million equivalent to Rs.1,853 million and out of that US\$ 9.69 million equivalent to Rs.1,405.06 million was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 28 October 2016 and scheduled to be completed by 31 December 2022.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit

evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (h) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with the Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,

- (c) the opening and closing balances, withdrawals from and the replenishments to the Imprest Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiencies**

The following observations are made.

- (a) Property, Plant and Equipment procured during the year under review at a cost of Rs. 1.27 million had been shown under the cost of Project Management Unit without considering the capital nature of such assets.
- (b) Advances made on house rent amounting to Rs. 4.5 million had been shown under the consultancy and other expenditure due a classification error.
- (c) The project monitoring expenses amounting to Rs.2.20 million incurred up to May 2017, out of the imprest received from the Line Ministry had been shown as Consultancy and other Expenditure.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and utilization of funds up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
ADB	9.69	1,405.06	293	0.76	179.27
GOSL	0.31	45.15	330	-	241.54
<b>Total</b>	<b><u>10.00</u></b>	<b><u>1,450.21</u></b>	<b><u>623</u></b>	<b><u>0.76</u></b>	<b><u>420.81</u></b>

### **3.2 Physical Progress**

According to the information received, the Project had entered into an agreement in December 2017 with a private company to obtain consultancy services to prepare feasibility studies, detailed engineering designs, safeguarding plans and bidding documents etc at an estimated cost of Euro 256,030 (US\$ 6.48 million) equivalent to Rs. 379.21 million. However, no significant progress thereon had been reported as at 31 December 2017.

### **3.3 Matter in Contentious Nature**

An advance amounting Rs.300 million made to the Urban Development Authority to construct 852 residential condominium units to resettle the residents living along the Kelani Valley Railway Line and a sum of Rs.24.05 million paid to a United Nations Agency to prepare a resettlement plan and conduct a social-economic survey thereon had been treated as costs of the Project, even though the respective costs had been incurred through the Appropriation Account of the Line Ministry. However, respective resettlement activities are not come under the purview of the Project.