

Transport Project Preparatory Facility under the Colombo Suburban Railway Project – 2018

The audit of financial statements of the Transport Project Preparatory Facility under the Colombo Suburban Railway Project for the year ended 31 December 2018 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 03 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 and Civil Aviation is the Executing Agency and Department of Railway is the Implementing 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 Project. 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 the Asian Development Bank. The balance amount of Rs. 447.94 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 28 October 2016 and scheduled to be completed by 31 December 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Para 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 2018, financial performance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 Deficiency

	Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
(a)	A sum of Rs 2,545 million payable to the Urban Development Authority as at 31 December 2018 under 05 Memorandums of Understanding entered by the Project to construct 1,052 housing units for resettlement of residents living in the sides of the Kelani Valley railway line had not either been taken into account or disclosed in the notes of the financial statements.	Understatement	Action had not been taken to bring this payable amount to account, as the legal right of the houses constructed by the Urban Development Authority had not been transferred to the Project.	Need to bring the amounts payable either in to account or disclose in the financial statements, as it is determined by the Memorandums of Understanding.
(b)	Liquidated damages amounting Rs. 3.39 million recovered from the Consultants deployed by the Project had been shown as payable to the General Treasury in the financial statements.	Overstatement of Payables	Agreed with the comment.	Accounting error need to be rectified.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Circular No. 1/2016 of 24 March 2016 of the Department of Management Services	The Salary scales of the staff of the Project was required to be decided under the first category of the Table 01 of the Circular No 1/2016 of 24 March 2016 of the Department of Management Services, as the initial investment of the Project from foreign sources was remained below than US\$ 15 million. However, the Cabinet of Ministers had decided at its meeting held on 16 May	Misinterpretation of Circular instruction	Staff with required skills and qualification was recruited and Project staff was paid through available fund allocations, considering the retroactive	Need to be review the scope of the activities of the Project and apply the circular instruction accordingly.

2018 to expand the activities of the Project and invest US\$ 135 million thereon. Based on that decision, the Project had taken action to increase the remuneration of the staff of the Project without the approval of the Department of Management Services. However, no arrangement had been made to explore foreign funds to launch the proposals of the Project.

financing arrangement to be made as per Cabinet approval.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The Project is implemented to provide consultancy services for designing of Kelani Valley railway line for improvement purposes and awarded a contract to a foreign firm of Consultant on 13 December 2017 at an estimated cost of Euro 256,030 (US\$ 6.48 million) equivalent to Rs. 379.21 million. According to the information received, the feasibility studies carried out by the Design Consultants had been completed and reports thereon had been submitted as at 31 December 2018. Further, the required surveys had been completed whilst 30 per cent of the detailed design works of Kelani Valley railway line had been completed at the end of the year under review.