

## **Colombo Suburban Railway Efficiency Improvement Project - 2019**

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The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project for the Six month period ended 31 December 2019 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.**

According to the Loan Agreement of the Project, the Ministry of Transport is the Executing Agency and Department of Railway in Sri Lanka is the Implementing Agency of the Project. The objectives of the Project are to improve efficiency, sustainability and Safety of the railway network comprise following outputs

- (i) Operational efficiency Improved.
- (ii) Maintenance capacity strengthened.
- (iii) Railway safety improved.
- (iv) 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 amounted to US\$ 192 million equivalent to Rs. 33,878.40 million and out of that US\$ 160 million equivalent to Rs. 28,232 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$. 32 million equivalent Rs. 5,646.40 million financed by Government of Sri Lanka. The Project commenced its activities on 06 September 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 Table 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 2019, 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 this 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.**

<b>Accounting Deficiency</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
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GOSL fund amounting Rs.8.36 million received for the retroactive finance to this Project during the year under review had been transferred to the other project called Colombo Suburban Railway Project without being obtained approval from the General Treasury. As a result, contribution of the Government of Sri Lanka shown in the financial statements had been understated by Rs. 8.36 million.	Understatement in the Financial Statements.	Streamlining of accounts in project office and in order account funds released under imprest Accounts No. 7002, two bank accounts have been opened two cash books are being maintained for two projects to handle GOSL Funds. At the end of the year 2019, the balance amount of Rs. 8.36 million had been transferred to CSRP Account from the REIP accounts an accurate manner.	Action need to be taken to rectify the Un – authorized transfer of project funds.

**2.2 Non-compliance with Rules and Regulations.**

<b>Reference to the Rules and Regulations</b>	<b>Non-compliance</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
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Cabinet Decisions dated 16th May 2018	According to the approval of cabinet of Ministers dated 16th May 2018 to implement the sub projects of the Colombo Suburban Railway Efficiency Improvement Project (CSREIP) Functioning under the retroactive financing of the Asian Development Bank. The Colombo Suburban	Unauthorized expenditure	All Procurement activities and invite bids for development Initiatives of REIP by CSRP with the cabinet approval dated 09.05.2018 Later Loan agreement was signed and funds were made	Approval of the Cabinet of Ministers should be obtained to pay or reimburse any amount from the loan under retroactive financing for the salaries of the staff of the Colombo Suburban Railway Project

Railway Project will implement all the preliminary procurement activities and invite bids for the development projects. Eventhough the cabinet of Ministers had not been granted any approval to pay or reimburse any amount from the loan under retroactive financing for the salaries of the staff of the Colombo Suburban Railway Project. Project had been paid a sum of Rs.25,417,796 as salary and allowances for the period of September 2019 to December 2019 from the project fund allocated for the project management expenditure of the Railway Efficiency Improvement Project to the 37 number of staff members who were recruited for the Colombo Suburban Railway Project activities

available under REIP, Finance code – 12 for development activities and for the project management.

### **3. Physical Performance.**

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

The Project is implemented to improve efficiency, sustainability and safety of the railway network comprise following outputs

- (a) Operational efficiency Improved.
- (b) Maintenance capacity strengthened.
- (c) Railway Safety improved.
- (d) Technical training center upgraded and project implementation capacity and readiness of future railway projects strengthened. As per the Loan agreement signed dated 20 August 2019 the estimated cost of the project amounted to US\$ 192 million equivalent to Rs. 33,878.40 million. According to the information received the expected physical performance should have been 5 per cent of the Investment cost, Recurrent cost, Contingencies and

Financial charges, However it was observed that performance had been achieved 03 per cent only at the end of the year under reviewed.

### 3.2 Contract Administration.

Audit Issues	Impacts	Response of the Management	Auditor's Recommendations
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<p>(a) Final Report of the Initial Feasibility Study relating to the Panadura-Veyangoda had been prepared by the Egis International /Resources Development Consultants (Pvt) Ltd and, it had been submitted to the Colombo Suburban Railway Project on 08 February 2018. According to the chapter 14.2.1 implementation schedule table 14.1 of the Feasibility Final Report, first priority should have been given to implement Maradana Loco Junction Improvements, Tele Communication, Ticketing and Fare Collection and Construction of Operation Control Center Building only. However, it was observed that, contrary to the feasibility study of the project a sum of US\$ 89.15 million for the 13 no of new works had been allocated for Railway Efficiency Improvement Project component which is a newly commenced to operation on 20th August 2019.</p>	<p>Poor project implementation</p>	<p>Development interventions in the pre – Feasibility study Report is not an approval for carrying out the development. The cabinet Memorandum explains, in detail and in border manner all the development initiatives that will be implemented by REIP.</p>	<p>Based on the Feasibility Study Report, priority requirement of the Railway and The Finance agreement need to be reviewed by the officers with specialized knowledge</p>
<p>(b) Based on the observations given by the Minister of Finance and Mass Media the Cabinet of Ministers had been granted an approval to the following proposals of the Cabinet Memorandum dated 16th May 2018.</p> <p>I. Railway Ticketing and Seat Reservation System (RTRS) and the Railway</p>	<p>Poor Project management</p>	<p>The list of Development Interventions to be included in REIP have further been discussed at ADB mission meeting with SLR, MOT, ERD etc. In addition, the list</p>	<p>Cabinet Decision need to be considered to allocate money for work proposals.</p>

- Radio  
Telecommunication  
System (RRTS)
- of items  
under REIP are  
included in the  
agreement signed  
between ADB  
and GOSL.
- II.** To construct the School Lane Bridge at Maligawatte.
- III.** To construct the Colombo Train Control Center and the Railway Operation Headquarters at Maradana.
- IV.** To carry out developments of Sri Lanka German Railway Technical Training Center.
- V.** To construct small scale housing schemes under the ADB financing along the railway lines in railway lands, to resettle families affected by the railway development project.

However, it was observed that 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 USD 62.79 Mn.

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| (c) | A Consultancy Agreement had been signed with the foreign consultancy firm at the ceiling amount of EURO 1,385,208, US\$ 2,642,014 and Rs.194,127,100 to carry out a feasibility study and prepare a detailed design of the Kandy Suburban Railway Project remained under the 13 proposals and a sum of Rs. 27,919,897 had | Poor contract implementation | Kandy Suburban Railway Development will extend a considerable contribution to National economy by reducing traffic congestion in | Cabinet decision is to be considered when implementing whole proposals. |
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been paid as mobilization advance during the year under review contrary to the cabinet decision given on 16 May 2018 and the pre-feasibility report.

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| <p>(d) It was observed that a sum of Rs. 4,502 million had been allocated to implement the ticketing system with the purpose of reducing the long queues at main stations during peak times for purchase of tickets and saving cost of importing tickets. However, enhancement of the railway operations efficiency without being laid the foundation for the electrification of the railway lines could not be ruled out in audit.</p>  | <p>Poor project implementation</p> | <p>Kandy city and thereby increasing Railway passenger share in Kandy city.</p> <p>The NPD Calculation sheet has considered the practical annual growth of passenger over past 05 years. ADB's Economic analysis of REIP, has considered the practical growth of 5.5 % annually. Both analysis have not considered passenger growth after Development (after electrification)</p> | <p>Foundation for the electrification of Railway lines should be completed prior to ticketing system.</p>   |
| <p>(e) According to the Socio-economic cost benefits analysis had been made by the Department of National Planning and the travel time saving due to reduction of delay time of trains is taken into consideration. The project is economically viable as it was found that the project generates Rs.7, 770 million net returns to the investment at 10% discount rate. Further, the economic internal rate of return (18.8%) exceeds the economic opportunity cost of capital (10%). The sensitivity analysis indicates that the economic viability is highly sensitive to the expected benefits of train delay reduction. If the reduction of delay time drops</p> | <p>Poor project forecasting</p>    | <p>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 &amp; works cautions is not the main cause for train delays.</p>   | <p>Re-consider the socio-economic cost benefits analysis and economic viability with the help of the offices who experts in similar field in locally.</p> |

from 10% to 6.2%, the project will not be economically viable, However, it was further observed that the main cause for the train delay the cautions impose, due to lack of insufficient ballast, week rail and insufficient sleepers.

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| (f) | According to the problem analysis of Sri Lanka Railway operates around 350 trains per day (around 128,700 per annum) and according to available statistics, around 62% of trains are operated within 10 min of their scheduled time. Around 30% trains get late more than 11 minutes of scheduled time daily and around 8% get delay more than an hour. The communication issues between train drivers and the controller is one of the reasons contributing to this kind of delays and it is negligible. According to the cost break down of the Project, the cost of Rs.3,632 million allocated to implement the Island Wide Radio Telecommunication System (IRTS) to achieve efficiency and safety of railway operations. However, it was observed that the causes indicated for delay was not identified by the Railway Minutes of the Operating Review Meetings. Hence the Project is not considered as viable Project. | Poor project implementation | In order to obtain a clear idea about Train delays, the amount of delays in minutes under each delay Category needs to be Considered. The analysis indicates number of trains or number of incidents and not the number of minutes delayed. It trains delay in minutes is Considered the result is different. At present no proper Communication system is available in SLR. This may be the reason for not showing delays due to communication failures among all categories of delays in the operating minutes. | Re- consider the socio-economic cost benefits analysis and economic viability by the help of the offices who experts in similar field in locally. |
| (g) | 30 numbers of Frequency sets are existing in the Railway Department without being utilized the communication   | Poor project implementation | SLR is using only 14 Frequency sets only for Northern Line.   | Deeply emphasized on existing communication system. Railway   |



system. according to the explanation given by the head of the signaling department, they can implement a new system around the cost of US\$ 1 million using the 30 numbers of Frequency sets available in Sri Lanka Railway. However, it was observed that the new proposed communication system with Dialog are commenced without considering the additional cost of US\$ 6.5 million approximately.

This is the operation before present implementing these requirement of types of project as SLR. The new maximizing future island wide cost benefits Railway Telecommunicati on system is free from any payment for frequencies.

### 3.3 Extraneous Activity.

<b>Audit Issue</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
Eventhough, the activity of training is not coming under the purview of this Project, a sum of Rs.310,000 had been paid to the Universities and Private Institution to follow training courses for the staff members of the Project had been treated as Project expenditure. Further, it was Considered as an ineligible expense under the retroactive financing.	Project funds spent for other than the project related activities.	It is Notified that all training costs incurred on behalf of Project related training programs are included with the project management unit operation cost. This get further proved by ADB accepting all the above training cost as an eligible cost component.	The Financial controls should be strengthened.

### Matters in Contentious Nature.

<b>Audit Issue</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
According to the Project Administration Manual part C table 4, separate project Management unit should have been established for the project activities and salaries of the staff should have been decided in terms of the Management	Misinterpretati on of Circular instruction and irregular payment of salary.	All staff of the project have been recruited and paid in accordance with approvals of	Need to be review the scope of the activities of the Project and comply with the circular

Service circular No: 01/2019 dated 15th march 2019, and an approval for the cadre should have been obtained from the Department of Management Service. However, it was observed that, without being obtaining the relevant approval from the Department of Management Service and establishing the project Management unit a sum of Rs.25.4 million had been paid as salary.

MSD PMU has instruction. also been established as per MSD circular No. 01/2019.

### 3.5 System and Controls.

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>Eventough the approvals of the relevant Authorities required to be obtained to implement the Project before signing the Loan Agreement with the Lending Agency, approval of the Department of National Planning had been obtained with 10 months delays from the signing date of the Loan Agreement between the Asian Development Bank and the Democratic Socialist Republic of Sri Lanka.</p>	<p>Weak in control procedure.</p>	<p>Ministry of Transport sent the request to NPD regarding REIP development in May and June 2019</p>	<p>The system of Control procedure should be strengthened.</p>