

Colombo Suburban Railway Efficiency Improvement Project Functioning under the Colombo Suburban Railway - 2021

The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project Functioning under the Colombo Suburban Railway Project for the year ended 31 December 2021 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, 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 efficiency, sustainability and safety of the railway network. The activities of the Project are implemented under (a) Operational efficiency Improved (b) Maintenance capacity strengthened (c) Railway safety improved and (d) 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 was US \$ 192 million equivalent to Rs 33,878 million and out of that US \$ 160 million equivalent to Rs.28,232 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 5,646 million is financed by the Government of Sri Lanka. The Project had commenced its activities on 06 September 2019 and scheduled to be completed by 31 December 2024.

1.2.1 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 2021, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

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. Comments on Financial Statements

2.1 Non- Compliance with Laws, Rules and Regulations

Reference to the Rules and Regulations	Non-Compliance	Management Responses	Auditor’s Recommendation
Cabinet Decisions dated 16th May 2018	The Cabinet of Ministers had not granted any approval to pay or reimburse any amount from the loan under retroactive financing for	Loan agreement was signed and funds were made available under REIP, Finance code –	Approval of the Cabinet of Ministers should be obtained to pay or reimburse any

the salaries of the staff of the Colombo Suburban Railway Project. However, Project had paid a sum of Rs.25.4 million as salary and allowances for the period of September 2019 to December 2019 from the project fund

12 for development activities and for the project management.

amount from the loan under retroactive financing for the salaries of the staff of the Colombo Suburban Railway Project.

3. Physical Performance

3.1 Progress of the activities of the Project

Component /Sub Component	As at 31 December 2021		Audit Issue	Response of the Management	Auditor's Recommendation
	Expected physical performance US\$ Mn	Performance achieved US\$ Mn			
- Investment Cost	86.47	11.48	Slow financial and physical performance was observed.	Covid 19 pandemic. Whole project hold for five months by ministry of finance. Trade union activities also affected.	Project should complete before year ended 2024.
- Recurrent Cost	1.35	1.32			
- Contingencies	8.62	-			
-Financial Charges During Implementation	2.3	0.5			

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to the final report of the Panadura-Weyangoda preliminary feasibility study, the first priority should have been given to the Maradana Loco Junction improvements, telephone communication, ticketing and fare collection and the construction of the operation control center building, an amount of US\$ 89.15 million had been allocated to the railway efficiency improvement project. the Cabinet Ministers	After receiving ADB approval, financial bids will be open, and the tender will be awarded within the next two months.	First priority should be given to complete the main project components which attention given by Feasibility Final Report and Cabinet decision.

had approved the construction of the School Lane Bridge (widening of the Loco Junction) between Dematagoda and Maradana to avoid the bottle neck. However, no commencing this component yet.

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| <p>(b) Consultancy agreement had been signed with the contractor at the ceiling amount of foreign currencies EURO 1,385,208,(USD 2,642,014) and local currency amounting Rs.194.1 million for feasibility study and detailed design of Kandy Suburban Railway Project. As at 31 December 2021 paid sum of Rs. 28 million to this component and expected to be complete in April 2022. However, the project still in slow progress.</p> | <p>The consultancy agreement was signed , and kick off meeting on 30 April 2020. Treasury directives, the constancies principle activities were terminated.</p> | <p>Cabinet decision is to be considered when implementing whole proposals.</p> |
| <p>(c) 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>The NPD Calculation sheet and ADB's Economic analysis of REIP analysis have not considered passenger growth after Development (after electrification)</p> | <p>Foundation for the electrification of Railway line should be completed prior ticketing system.</p> |
| <p>(d) Installation of island wide railway telecommunication system project component implemented in 16 Nov 2020 for US\$ 17.30 million equivalent to Rs. 3,148 million with Dialog Axiata PLC(SRI). The contract expected to be completed in December 2021. In according to the annual financial statements and status reports Rs. 770 million had been paid as at 31 December 2021 and 100 percent procurement and 77 percent work in progress had been achieved. following observations have been made</p> <ul style="list-style-type: none"> • Delay in installation of Radio equipment in railway stations and other sections due to lack of facilities made by Ceylon Government Railway. | <p>Out of the 451FT2 units, 291 have been installed and the remaining 160 have been delayed due to procedural/technical Permission required from SLR.of 788 FT3 units, 380 have been installed on level crossing the balance 150 to be installed. It yet delays due to the non availability of power/electricity and security concern of the locations.</p> <p>The engine compartments that are under long repairs, MT1, will be handed over to the stores of SLR.</p> | <p>Try to complete the existing work in according to contract period and benefit of this component should come to SLR as soon as possible.</p> |

- 30 Train Radio (MT1) sets unable to Fixed to train engine compartment due to non availability in working condition
 - 49 Train Radio (MT1) sets unable to fixed to the power wagon due to still in company warranty period. Nothing can be install to the engine room without manufactures permission
 - Ceylon Government Railway not given a permission to fixed the cable through 17 tunnels length of 12.5 Km without being a payment made to them for their demerge charges. In according to the agreement no facility to make payment to CGR for demerges. So this 12.5 Km length is not covered by this telecommunication system.
- The SLR is bring in negotiations and sought guidance from the manufacturing company. Approval to install the fiber cable solution for 44 sites in the Ohiya stretch and fiber cluster was discussed during the meeting held on 10 January 2022, the Secretary - MoT appointed a committee to give recommendation in this regard.

3.3 Extraneous Activities

Audit Issue	Response of the Management	Auditor's Recommendation
The project had incurred a commitment charge, due to underutilized of allocated fund for the year under review was Rs. 46,084,807 and Rs.80,540,700 at end of the year 2021.	The trade unions of Sri Lanka Railways have highlighted several concerns about the project activities, Changing Ministerial portfolio, covid 19 pandemic scenario, Treasury suspending all projects for 5 months.	The financial controls should be strengthened.

3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
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	Referring to the Project administration manual of CSREIP part C of the PMU Table 04, the actions followed by the PMU have fully complied	Need to be reviewed the scope of the activities of the Project and apply the circular instruction

decided in terms of the Management Service Circular No: 01/2019 dated 15 March 2019,

with all relevant approvals. Approved Cabinet Paper dated 16 May 2018 and numbered 403/18/0815/709/028. It can be noted that no comment or observation was made throughout the process of approving the cabinet paper, to establish the separate PMU for REIP.

accordingly to save the cost of the project.