

Colombo Suburban Railway Efficiency Improvement Project - 2024

The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project for the year ended 31 December 2024 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 4.02(a) of the Loan Agreement No. 3806(SF) dated 20 August 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB). 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, Highways, Ports and civil Aviation is the Executing Agency and Department of Railway is the Implementing Agency of the Project. The objectives of the Project are improve efficiency, sustainability, and safety of the railway network comprise following outputs Operational efficiency Improved, Maintenance capacity strengthened, Railway safety improvement, technical training centre upgraded and Project implementation capacity and readiness to future railway project strengthened. The activities of the Project are implemented under 31 components.

As per the Loan Agreement, the estimated total cost of the Project was USD 147.66 million equivalents to Rs.47,215.8 million and out of that USD 125 million equivalent to Rs.39,970 million was agreed to be financed by Asian Development Bank (ADB). The balance amount of USD 22.66 million equivalent to Rs.7,245.8 million is expected to be 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.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 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 2024 statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 Accounting Deficiencies

	Accounting Deficiency / Audit Issue	Amount Rs.	Response of the Management	Auditor's Recommendations
(i)	The investment cost of Rs.24,846,662 under the Kandy Suburban Railway Project had been removed from project activity cost during the year under review. Therefore, the total investment cost had been understated by that amount.	24,846,662	Agree with the observation. Necessary corrective actions will be taken when preparing Project financial Statements in future.	Correct value should be accounted.
(ii)	As per the section 39 (a) of Sri Lanka Accounting Standard No 21, the Parity adjustments amounting to Rs.291 million relating to the foreign loan of the project had not been accounted in the financial statements of the year under review.	291 million	Cumulative parity variance as at 31st December 2022 has removed from the Financial Statement of 2024 according to the Department of State Accounts guideline number 03/2024, dated 22 February 2024.	Adhere to the Sri Lanka Accounting Standards.

3. Physical Performance

3.1 Physical and Financial progress of the activities of the Project.

Component	Delay/ Audit Issue	Response of the Management	Auditor's Recommendations
Physical and Financial progress	Although Rs.31,708.7 million had been allocated for 31 major tasks under the project, as at the end of the year under review, 23 tasks with a total estimated value of Rs. 23,973 million had not been completed and their physical progress was in the range of 07 percent to 99 percent and although	Agree with the observation. Since the signing of the loan agreements, the project scope has been revised twice and 17 tasks have reached over 80 percent progress and 15 tasks have been completed and handed over to the Department of Railways. Payments will be	Project activities should be completed without delay to minimise the commitment chargers.

the physical progress of 08 tasks with an estimated value of Rs. 11,977 million was more than 80 percent, their financial progress was in the range of 0 to 52 percent, the estimated commitment charge of the project which was USD 0.35 million had increased to USD 0.92 million by 31 December 2024. The slow progress in the physical and financial performance of the overall project had led to this adverse situation.

made after the procurement process completed and the financial progress remained low due to lack of payment.

In addition, significant delays in signing some contracts, the COVID pandemic and the economic crisis that went beyond control, directly affected the poor progress of deliveries.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
It was observed that a contract agreement was made with a foreign joint venture for a value of USD 19.3 million using Asian Development Bank funds to establish a smart ticketing and seat reservation system for the Sri Lanka Railways in 16 tasks under 03 phases, and USD 1.6 million had been paid as an advance. Also, Rs. 6.6 million had been paid to another party for consultancy services on this system and Rs. 151.7 million had been paid for the purchase of 900 nos. equipment which is use the for check validity of the smart ticket and had been distributed to 344 railway stations. Although only one of the 16 tasks which is the establishment of the Smart Ticket issuance website was completed in August 2024, the	The project appeared delay, due to the significant time taken by the contractor to prepare the Software Requirement Specification (SRS) with the Railways Department (SLR). The main reasons for the decline in the purchase and validation of tickets through the website are the lack of adequate awareness among the public and the reluctance of the relevant officials of SLR to use the devices provided for ticket validation.	Project should be completed as per the scheduled time to achieve desired objectives.

sale of issuing Smart tickets remained at a level of less than 1 percent of the total ticket sales and the verification of tickets using the Smart Pass validation devices remained at a level of less than 0.6 percent of the Smart tickets sold. Although the other 15 tasks under the project were to be completed by May 2024 as per the agreement and the physical progress of those tasks remained at a level of 0 to 20 percent.

3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(i) Although Rs. 14,000 million and Rs. 50 million were allocated for the project as the Asian Development Bank funds and Government funds respectively from the annual budget estimates in the year under review, the actual expenditure was Rs.6,726.28 million and Rs. 2.2 million respectively, resulting the amount of Rs.7,273.72 million (52 percent) and Rs. 47.8 million (96 percent) under utilizations of the budgeted allocations. Accordingly, it was not observed that the budget document used as an effective control tool, which was designed to efficiently utilize the loan funds of Asian Development Bank allocations and Government funds with financial and opportunity costs by the project.	Agreed with the Audit Observation. Planed budgetary expenditures for ADB funds and government funds could not be fully utilized due to the slow performance of the entire Project.	The annual budget estimates should be used as an efficient control tool.
(ii) The Secretary of the Ministry of Transport had entered into an agreement with a local private company for the establishment and operation of the island-wide railway communication system under the Asian Development Bank loan scheme for a value of USD 7.49 million. Under the project, it was	All hardware products were handed over to SLR and fixed. The comprehensive training was given to the 1341-SLR officers. The telecom activities as project, Operational Acceptance was received from the SLR and properly handed over on 1 st August 2022; its	Action should be taken to complete the project activities as planned to achieve desired objectives.

expected to provide a more efficient and safer railway service to the people using the new communication system. The project work had been completed by September 2022 at a cost of Rs. 1,901.27 million and a cost of Rs. 73.2 million for maintenance and service work and Rs. 50 million for additional equipment had been incurred as at 31 December 2024. Due to use only fixed telephones without usage of the overall system, the objectives of the project had not been achieved and the expenditure incurred had been wasted. Also, as per the monthly maintenance and service agreement, a fee of Rs.3.5 million payment obligation had arisen until July 2031 for this unused system.

physical progress is 100 percent as agreed with the GMR.

According to the Monthly Maintenance and Performance reports submitted by the contractor, 519907-one to one calls and 11953-group calls monthly are taken from this system by SLR. At present, Including the reluctance of SLR staff to use the system for their work and due to the many other reasons, system is not been fully operated. It is the responsibility of the SLR management to implement the system with their officers.