

Transport Project Preparatory Facility functioned under the Colombo Suburban Railway Project 2024

The audit of financial statements of the Transport Project Preparatory Facility functioned under the Colombo Suburban Railway 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 4.03(a) 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 (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, Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency and Sri Lanka Railway is the Implementing Agency of the Project. The objectives of the Project are to improve readiness of the priority Transport Project. The activities of the project are implemented under one component namely provide consultancy service for carrying out Feasibility studies and prepare of detailed Designs for the development of Colombo suburban railways. As per the Loan Agreement, the estimated total cost of the Project was USD 11.36 million equivalent to Rs. 1,654.54 million and out of that USD 9.99 million equivalent to Rs. 1,456.50 million was agreed to be financed by Asian Development Bank (ADB). The balance amount of Rs.198.04 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 28 October 2016 and scheduled to be completed by 31 December 2022. However, the date of completion of the activities of the Project had been extended up to 30 June 2023.

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, financial 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. Million	Response of the Management	Auditor's Recommendations
(i)	According to the paragraph No. 27 of the Sri Lanka Accounting Standard No.01, the project account Should be prepared on accrual basis. However, interest payable amounting to Rs.36.56 million and the payable balance of Rs.63.36 million for purchasing of housing units from UDA had not been accounted on accrual basis. As a result, the total liability shown in the financial statements had been understated by Rs.99.92 million.	99.92	Necessary steps will be taken to adjust the finalized amount to the accounts for the coming year.	Adhere to the Sri Lanka Accounting Standards.
(ii)	As per the paragraph 39(a) of Sri Lanka Accounting Standard 21, the Parity adjustments amounting to Rs.940.15 million relating to the foreign loan of the project had not been accounted in the financial statements of the year under review.	940.15	Parity adjustments in the Project Financial Statements of the project removed by the department of State Account's guideline number 03/2024, dated 22 February 2024.	Adhere to the Sri Lanka Accounting Standards.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	Delay/ Audit Issue	Response of the Management	Auditor's Recommendations
Consultancy	Feasibility study and detailed designs of the project	It had been provided Rs. 1,551.35 million equivalent to USD 8.5 million as at 31 December 2024 for prepare plans for the development of the railway network, stations and associated electrical system and passenger	The implementation of the KV line project is not the responsibility of the Project Management Unit. The task of the PMU was to preparation of feasibility studies and detailed design for the Colombo suburban	The report should be used to planning of future projects.

facilities in the suburban area under the ADB loan, areas of Maradana to Rambukkana, Kalutara South, Kelani Valley and Ragama to Kochchikade in Colombo, under this project by the Asian Development Bank. It was spent 93 percent equivalent to Rs.1,446.95 million out of this amount on consultancy services for the relevant feasibility study and detailed design by 2021 and more than 04 years had passed since the reports were handed over to the Line Ministry, but the reports had not been used for any development project so far.

3.2 Contract Administration.

Audit Issue	Response of the Management	Auditor's Recommendation
The Urban Development Authority (UDA) and the Ministry of Transport (MOT) had been entered into MoUs in 2017 and 2018 to purchase 1,244 housing units for Rs. 5,412 million using local funds to resettle families living in the Kelani Valley Railway Right of Way (RoW). Although the housing units had to be handed over to the project within two years from the date of the agreement, a total of 550 housing units, had not been handed over as per the agreements due to non-completion of construction. Although the agreements were extended on several times and new MoUs were entered into, it was observed that, due to the failure to resettle families living in the Kelani Valley Railway Right of Way the development of the Kelani Valley Railway had not been started.	As per the revised agreements the remaining 550 housing units, scheduled to be handed over by March 2024 and not be delivered as planned. Delays in the resettlement process have no any impact on the commencement of development activities of the Kelani Valley Railway Line.	Development of KV Railway should be commenced as planned.

3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
Although Rs.790 million provisions had been made as government funds for the project as per the annual budget estimates, the actual expenditure in the year under review was Rs.78.9 million and Rs.711 million, equaling 90 percent of the budgeted allocations not being utilized. Accordingly, the budget document had not been used as an efficient management tool to effectively utilize the government funds by the project.	Budgetary provisions could not be utilized as planned and this situation was beyond the project control. However, necessary steps have been taken to transfer the remaining budgetary provisions to be used for other activities of the Ministry of Transport, Highways, Ports and Civil Aviation in time.	Budget should be used as a management tool.