

## **Metro Colombo Urban Development Project - 2019**

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The audit of financial statements of the Metro Colombo Urban Development Project for the year 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 Section II (B.3) of Schedule 2 of the Loan Agreement No.8145 – LK dated 18 May 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development (IBRD).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreement of the Project, Ministry of Megapolis and Western Development is the executing agency and the Urban Development Authority, the Sri Lanka Land Reclamation and Development Corporation and the Colombo Municipal Council are the Implementing Agencies of the Project. The objectives of the Project are to reduce flooding in the catchment of the Colombo water basin, strengthen the capacity of Local Authorities in the Colombo Metropolitan Area, improve and maintain local infrastructure and services through selected demonstration investments. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 321 million equivalents to Rs. 42,031.74 million and out of that US\$ 213 million equivalents to Rs. 27,890.22 million was agreed to be financed by the International Bank for Reconstruction and Development. The balance amount of Rs.14,141.52 million to be financed by the Government of Sri Lanka. The Project commenced its activities on 10 July 2012 and scheduled to be completed by 30 June 2017. Subsequently, the period of the Project had been extended up to 30 June 2021.

### **1.3 Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

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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 Responsibility of the Management and Those charged with Governance for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, 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**

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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 Deficiencies

Audit Issue	Impact	Management Response	Recommendation
(a) Due to overstating of the grants received for the sub – projects conducted by the project by Rs.10,000,000, two balances of the World Bank Loan account and Local Advance account had been overstated by Rs.10,000,000.	The foreign loan amount had been overstated by Rs. 10,000,000 in the financial statements	Agreed with the observation. This has been occurred due to a mistake being done by through a journal entry.	Accounting deficiencies should be rectified in the financial statements.
(b) According to the Treasury details, utilized GOSL funds amounted to Rs.1,625,309,323 up to end of the year under review. However, according to the Treasury Fund utilization account that amount shown as Rs.1,613,000,000. Thus the GOSL funds received had been understated by Rs. 12,309,823.	GOSL funds received had been under stated by Rs. 12,309,823 in the financial statements.	It has been observed that an error has been occurred in the process of recording in the annual financial statements. This has been rectified adjusting the year 2020.	Funds received from the GOSL Should be correctly reconciled.
(c) The construction consultancy services expenditure shown under the project component 2 amounted to Rs.267,454,113. However, according to detailed schedule submitted thereon that value shown as Rs.259,966,508. Hence a difference of Rs.7,487,605 was observed.	Non reconciliation of the consultancy services expenditures and the detailed schedule	Even though the expenditure has been correctly updated in the schedule related to the components has not been updated properly and thereby the mistake has been occurred	The detailed schedules and the related balances in the financial statements should be reconciled.

## 2.2 Non Compliance with Laws, Rules and Regulations

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 The following observations are made.

	<b>Reference to the Laws, Rules and Regulations</b>	<b>Audit Issue</b>	<b>Impact</b>	<b>Management Response</b>	<b>Recommendation</b>
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(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka : FR 757 (2) (a) (b)	Actions had not been taken with regard to the recommendations made by the Board of Survey.	It affects to the project's inventory control system and influence to security of assets.	Actions have been taken with regard to the recommendations and the reports subsequently submit.	Necessary actions should be taken relating to the recommendations made by the Board of Survey and the inventory control system should be strengthen.
(ii)	F.R 751	<ul style="list-style-type: none"> <li>An Inventory Register had not been maintained by the Real Time Flood Control (RTC) – sub project</li> <li>Four cabinets that had been transferred to the Sri Lanka Land Reclamation and Development Corporation had not been recorded in the Inventory Register.</li> </ul>	<p>Inventory control system of the project would be unsystematic and affected to the security of assets.</p> <p>Due to not recording the inventory items correctly in the registers, it would be affected to the asset controls.</p>	<p>Appointing an officer for this purpose to whom necessary instructions were issued in this connection.</p> <p>As at present the said items are properly recorded in the inventory.</p>	<p>Inventory Registers should be maintained, relating to all items received by the office.</p> <p>The Inventory Registers should be properly updated</p>

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| (b) | Section 8.9.1 of the Government Procurement Guideline | Even though the contract for office partition for the Project office at stage – II Building in 13 floor of the Sethsiripaya had been awarded for Rs.1,726,985 in the year 2018, an agreement had not been signed with the respective organization. | It would deviate from the contract management process. | Comments had not been submitted | The project should be complied with the requirements of the Government Procurement Guidelines for every procurement. |
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### 3. Physical Performance

#### 3.1 Physical and Financial Progress of the activities of the Project

Sub-project/ Component	As at 31 December 2019		Delay/ Audit Issue	Impact	Auditor's Recommendations	Comments of the Management
	Expected physical performance	Performance achieved Physical Financial				
(a) Design and Construction of New Muthuwella Torrington Tunnel	86	40	Due those significant delays, overall project duration had to be extended up to December 2021 and general public had inconveniences of the construction works. Expected benefits could not be achieved in timely manner by the general public. As well as expected cost of the activities would be overrun.	(i) This had affected to the achievement of overall objectives of the project.  (ii) The benefits expected to be provided to the general public would be delayed and project cost would be overrun.	The project should be selected the most suitable contractor and there must be a best estimate for the construction work to be carried out and should be provide the guidance to the consultants to ensure that the construction works are done economically and effectively.	Comments had not been submitted
(b) Development of bio – diversity park at Kotte Rampart	89	45				
(c) Construction of Flood Gate with culvert near Thalangama Tank and construction of culvert at Bauddhaloka mawatha	49	37				
(d) Design and Construction of St. Sebastian North Lock Gates and Pumping Station	90	69				
(e) Kollonnawa Canal Diversion Scheme, Stage –I	75	53				
(f) Design and Construction of Ambatale Flood Water Pumping Station	84	73				

### 3.2 Delays in completion of activities of the Project

Activity	Date scheduled to be completed	Date of taking over after being completed	Works Delay	Impact	Auditor's Recommendations	Response of the Management
(a) Drain near at Devi Balika Vidyalaya	November 2017	03 September 2019	21	Overall project completion period would be delayed and the delays in construction works had been led to increase the costs of works.	Prompt actions need to be taken to complete the constructions minimizing to negative effects.	Comments had not been given
(b) Improvements to the Norris Canal	August 2019	had not been handed over even up to September 2020	11			
(c) Improvements to Madiwela East tank	October 2017	31 January 2019	16			
(d) Dredging of Talangama Tank	March 2017	had not been handed over even up to September 2020	42			
(e) Design and Building of St. Sebastian North Lock Gates and Pumping Station	June 2019	had not been handed over even up to September 2020	15			
(f) Improvements to Madiwela East Diversion Scheme Stage 111	January 2018	had not been handed over even up to September 2020	33			
(g) Kolonnawa Canal Diversion Scheme Stage 11	March 2019	05 May 2019	06			
(h) Construction of Liner park Along Beira Lake- Western Band West	April 2019	had not been handed over even up to September 2020	17			



### 3.3 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	According to the approved estimate, the construction of Liner Park along Beira stage II Project, a sum of Rs. 1,542,790 had been allocated for excavation of soil and a sum of Rs. 1,246,686 had been paid for excavation. According to the condition of the contract, contractor should dispose the excavated soil complying with the local authority's regulations, However, the contractor had not done so.	The project is responsible for non-compliance with the regulations of the local Authority. It would effect to the environment and ongoing contract works.	The excavated soil has been transported to another Project.	The project and contractor should comply with the requirements of the condition of the contract.
(b)	According to the Contract Agreement of the Construction of Flood Gate near Thalangama Tank was expected to be completed by 20 January 2020. Subsequently, further time extension had been granted to complete the works by 21 April 2020. However, some 3 major works relating to mechanical and electrification of gates valued at Rs.6,465,070 had not been completed and delay damages for the works had not been charged.	The Project period has to be further extended. Major items of the Contracts may not be completed.	The contract period had been further extended up to 29 July 2020. Hence, delay charges can not be recovered. An amended development plan had been furnished by the Developer.	Corrective action should be taken on that regard.
(c)	According to the progress report of the Project, financial progress of the 27 sub projects were 100 per cent as at 31 December 2019. But, it is observed that price differences between the awarded contract prices and the actual contract prices of 17 sub projects of component 02 and 10	The cost of the project activities increase and effect to contract management procedures.	All the subprojects which shows 100% financial progress are entirely completed as at 31 <sup>st</sup> December 2019. It is to be noted that during the implementation stages project	Action should be taken to control the project costs according to the contract agreements.

sub projects of component 01, were within the range of 16 per cent to 40 per cent.

percentage progress is computed considering the value of implemented work-done against the initial contract price while at the completion stage it is computed against the final contract prices.

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| (d) | It is observed that 5 projects, the estimated cost of Rs.7,601 million, had been recorded less than 50 per progress at the end of the year under review, compared with the scheduled as at end of the year under review.   | Expected objectives of the Project could not be achieved and the project's duration may have to be extended. | Commonly, the terrorist attack on 21.04.2019 (Easter Sunday) had severely affected the progress of all construction. | In order to provide the maximum benefits to the general public, actions should be taken to make priority lists of the sub projects and complete the works. |
| (e) | According to the BOQ item no 139 (9) of the construction of Kotte Rampart Wetland Park, the contractor should recruit resident surveyor for the construction work and contractor had been bid a sum of Rs.4,650,000 for above position. Nevertheless, appointment of the residence survey had not been done. | Increase the cost of the construction due to unnecessary items that had been bid by the contractor.          | Action has been taken to fill that post.   | Action should be taken to avoid this kind of unnecessary works through the evaluation of the requirements.   |

### 3.4 Observations made on site visits

----- <b>Audit Issue</b> -----	----- <b>Impact</b> -----	----- <b>Response of the Management</b> -----	----- <b>Auditor's Recommendations</b> -----
(a) In order to mitigate the environmental effects of which had been caused due to removing of several trees at Thalagama Tank, the project had decided to plant 42 saplings. However, the contractor had not planted the sapling as per the plan.	Environmental effects could not be expected due to the failure to take such kind of remedial actions.	During Covid-19 period these have not been properly carried out.	Actions should be continued to protect the saplings.

- (b) The project had constructed a Beach park at crow Island incurring a sum of Rs.275.8 million through the Colombo Municipal Council in the year 2017. However, due to the planning defects and construction failures, the objectives of the park construction could not be achieved by the general public even before being lapsed of 3 years after the constructions. Hence, an additional amount of Rs.39 million, has to be incurred in order to renovate the park.
- Without considering environmental conditions and rate of the uses, architectural designing had been prepared. As a result, within a short period, renovations to be carried out incurring significant additional cost.
- There are various defects observed after 4 years of opening to public due to usage of general public and harsh environment.
- Architectural designs should be developed considering the social needs and environmental conditions.

### 3.5 Payments made out of the Project Objectives

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	A separate office space had been rented out by the project without having a real requirement, at the project final stage, incurring a sum of Rs.130,534 as monthly rent and further a sum of Rs.2,642,073 had been incurred for office partition works too.	Increase the unproductive and uneconomical expenditure	Considering the inadequacy of space, one sub unit has been obtained.	Project funds should be utilized in economical manner.
(b)	Even though a sum of Rs.1,000,573 had been paid for the procurement of project coordinating computer software system in 2015, the computer software had not been supplied to the project management unit until 30 <sup>th</sup> June 2020. Thus, it was observed that	Since the project is at its final stage, the expected benefits that expected to be obtained from using of the software package could not be	As previously explained the software development process were not proceeding due to various reasons.	Action should be taken to avoid such kind of expenses.

the project had failed to utilize that software for the project activities. able to achieved.

(c) According to the project appraised document, a sum of US\$ 2.6 million equivalents to Rs.390 million had been allocated for the establishment of real time flood control unit. Out of that allocation, sum of Rs.150.52 million and Rs.80.76 million had been incurred for the purchase of equipment and computer software and maintenance of the unit respectively. However, no significant progress had been achieved from the said works as expected.

Expected progress had not been achieved from the said works and increase the ineffective expenditure.

(d) A sum of Rs.37.16 million had been paid to a consultant of the above sub – project for a three years period without obtaining the approval from the Department of Management Services for the recruitment. The main consultancy area of the officer was to make analysis about the rain falls in several locations in the Island. Nevertheless, without considering the availability of the accurate data analysis relating to rain falls. However, no contribution had been made by that Division relating to the flood control systems.

Expected progress had not been achieved from the said works and increase the ineffective expenditure.

A significant progress is achieved from the sub – project.

The alternative sources should be evaluated when planning the project activities in order to achieve cost effectiveness.

This procurement was an individual consultancy service for establishing Real Time Flood Control and the service was procured after following standard procurement procedures through World Bank (WB) Procurement Plan. The consultancy fee had been paid in accordance with the signed agreement with the Consultant. Hence, the approval of Department of Management Services was not applicable.

The alternative sources should be evaluated when planning the project activities in order to achieve cost effectiveness