

Strategic Cities Development Project (SCDP) - 2022

The audit of Financial Statement of the Winding up Account of Strategic Cities Development Project for the year ended 31 December 2022 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 the Financing Agreement No. 5428-LK dated 12 September 2014 and amended financial agreement No. 5800-LK dated 20 July 2016 entered into between the Democratic Socialist Republic of Sri Lanka and International Development Association. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Projects

According to the Financing Agreement of the Project, the Ministry of Urban Development, Water Supply and Housing Facilities presently Ministry of Urban Development and Housing is the executing agency and Strategic Cities Development Project (SCDP) is the Implementing Agency of the Project. The objectives of the Project are to improve selected urban services and public urban space in the participatory City Region of Sri Lanka. As per the Financing Agreement, the estimated total cost of the Project was US \$ 257.08 million equivalent to Rs. 34,912.48 million and out of that US\$ 202 million equivalent to Rs. 27,507 million was agreed to be financed by International Development Association. The balance amount of US\$ 55 million equivalent to Rs.7,405.48 is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 05 May 2014 and scheduled to be completed by 31 December 2019. Further, according to the Financing Agreement No: 5800-LK of 20 July 2016 for additional financing, the International Development Association had agreed to allocate SDR 39.90 million (US\$ 55 million) equivalent to Rs. 8,250 million for the purpose of development works in Jaffna City. However, the date of completion of the activities of the Project had been extended up to 30 June 2022, but the Project had been wound up on 31 December 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2 of my report, the accompanying winding up financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, statement of expenditure for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 2 of this report.

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 winding up 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 Winding up Financial Statements

Management is responsible for the preparation of winding up financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of winding up 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 Winding up Financial Statements

My objective is to obtain reasonable assurance about whether the winding up 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 winding up 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 winding up 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 winding up financial statements, including the disclosures, and whether the winding up 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

No	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	As per Section 43(a) of Sri Lanka public Sector Accounting Standard 5, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.	2,651	In the future when preparing of project winding up accounts take Consideration of this adjustment	Parity adjustment should be brought to the Financial Statement.
(b)	The assets were stated in the financial statements as assets to be transferred to the Ministry of Urban Development and Housing as at 31 December 2022, however, those assets had not been transferred to the Ministry even by 31 October 2023.	5.20	At the winding up stage transferring whole assets transferring is little Difficult, however in future action will be taken to follow the correct procedure when preparing the windup financial Statement.	Immediate action should be taken to transfer all project assets to the relevant institutions.
(c)	Eight legal actions had not been taken against the project as at 31 December of the year under review. However, it had not been disclosed in the Financial Statements and the information about the current status of the legal cases had not been submitted to audit.		Until finalize the court decisions, we are not in a position to make certifications.	Pending contingencies should be disclosed in the Financial Statements.
(d)	A provision had not been made for the outstanding bills amounting to Rs.277.19 million. As a result, the liability had been understated by that amount in the Financial Statements	277.19	No comment.	Action should be taken to made provision in the Financial Statements for outstanding bills.

2.2 Lack of Evidence for Audit

Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendation
The completed 85 projects valued at Rs.18,364 million and uncompleted 02 projects valued at Rs.352 million had been handed over to 20 institutions. However, these projects were not formally taken over by the Secretary of the Line Ministry. Furthermore, the relevant evidence was not submitted to the audit to confirm whether the handed over projects were included in the financial statements of those institutions.	18,364	Will be taken necessary action to collect the acceptance certificate from particular Institutions	Immediate action should be taken to get confirmation from relevant institutions.

3 Physical Performance

3.1 Physical Progress of the activities of the Projects.

Component No	Delay/Audit Issue	Response of the Management	Auditor's Recommendation
01	Component No. 01- Kandy City Development		
(a)	A sum of US\$ 62.08 million equivalent to Rs.8,070.40 million was estimated to strengthen the transportation of Kandy city and make it an attractive tourism city. A sum of Rs.5,781.67 million had been spent as at 31 December 2022. However the project had not been able to fulfill the sub-projects of constructing 3 bus terminals, preparing a long-term transportation plan, and preparing Environment Standards, passenger comfort and safety Standards which are planned to be implemented under this component and the intended objectives of this component could not be fulfilled.		
(b)	The contract value of the project for the construction of Kandy Multimodal Transport Center (KMTT), which is a major component of the project, was Rs.10,500 million and a sum of Rs.202.99 million had been spent as at 31 December 2022. In addition to that, a sum of Rs.686.35 million had been spent for land acquisition. It was handed over to the Ministry of Transport and Highways Development to continue the work on 31 May 2022 due to unable to carry out this project as planned.	Regarding these observing Implementation completions Report dated 10/06/2022 prepared by Project and World Bank implementation completion reports August 2022 clearly pointed out the details	Loan fund should be utilized effectively within the project period to achieve the desired objectives and benefits to the General Public

- (c) Although it was initially planned to construct 3 bus terminals in Gatambe, Nittawela and Thannakumbura areas without implementing those projects, a total of Rs.276.54 million had been spent for the construction of Bogambara, Torrington, Clock Tower Bus Terminals, which were not identified at the initial stage and a sum of Rs. 127.18 million had also been spent for the construction of the Kandy South Bus Depot.
- (e) Although the project had spent a sum of Rs.238 million on the construction of a four-storied building for the Sri Lanka Railway Department and Rs.113 million on the construction of a new timber workshop building, the works had not been completed and the projects had been transferred to the Ministry of Urban Development and Housing to complete the remaining works valued at Rs.88.46 million.
- (f) Although project had identified to develop 25 km of roads in the Kandy district at the beginning of the project, only 9 km had been completed after revising the scope. The following observations are made in this regard.
- (a) It was planned to be improved 7 km of Katugastota, Gohagoda, Peradeniya roads under the rehabilitation of outer and inner by-pass roads, however those projects had not been fully implemented.
- (b) Contract for Katugastota-Madawala-Babarella road and Dharmashoka Mawatha improvement projects had been awarded for Rs.1,614.96 million and Rs.796.43 million respectively. However, a total amount of Rs.907.16 million had been spent for these contracts as at 31 December 2022, however the work had been suspended without completion.
- (g) A sum of US\$ 18.6 million equivalent Rs.2,418 million had been allocated for Storm Water Drain Rehabilitation under component 1.2 However, a sum of Rs. 522.22 million had been incurred for this component and 4 completed projects were handed over to the Kandy Municipal Council. The following observations are made in this regard
- (i) The sub-projects of improvement of Gatambe water treatment plant, construction of Dangolla, Heerassagala water service tanks, construction of two Heerassagala water pumping stations construction of 5 small water pumping stations in Nagasthana, Piriswatta, Dangolla areas and water supply software improvement had not been implemented under component 1.2.1,1.2.2 and 1.2.3.
- (ii) Although project had also planned to build transmission stations at 4 locations, only the Heerassagala transmission station was built, furthermore, it was planned to be renovated 30 km, however only 13.73 km had been completed.

Regarding these observing
Implementation
completions Report dated
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(h) US\$ 5.5 million equivalent Rs.715 million had been allocated for the renovation of the main drainage systems of the city of Kandy under component No. 1.3. The old sewage pipe system of Kandy city is connected to the Mahaweli River and the aim of this project was to restore the same sewage pipe system located in the middle channel. However it was observed during the project period private sewage had been diverted to the pipeline. Accordingly, 05 sub-projects were implemented at a cost of Rs. 2,351.9 million to stop the disposal of sewage and carry out the renovation work of the main drain system. As a result, 229 percent had been spent more than the allocated estimated amount for this project due to the sewage was being dumped into these pipelines and the waste was being released into the Mahaweli River.

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(i) A sum of US\$ 24.05 million equivalent Rs. 3,126.50 million was allocated for implementing 06 sub components for urban upgrading of Kandy city under Component No. 1.4. However only 02 of those out of 06 sub-components had been implemented and a sum of Rs.2,202.71 million had been spent for that. Following observations are made in this regard.

(i) Mada ela- old post office revitalization program, grid city revitalization program, Kandy master plan and design and supervision service at a cost of US\$ 8.1 million were planned to be implemented under this project. But those works were not implemented.

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(ii) Although US\$ 5.5 million equivalent Rs. 715 million had been allocated to Civic and Cultural District Development Program, a sum of Rs. 1,633.63 million or 128 percent had been spent for the implementation of one activity out of the 4 activities planned to be implemented under that

02. Component 02- Galle City development

(a) US\$ 26.52 million equivalent Rs.3,447.60 million had been allocated for water transport and flood reduction in Galle city. Under Component No. 2.1 and Rs.3,309.99 million had spent by the project as at 31 December 2022. The following observations are made in this regard.

(i) It was expected to reduce the number of floods in Galle Municipal Council boundary by Renovating Moragoda Ela, Moda Ela and Cross Canals and a sum of US\$ 26.52 million or Rs. 3,447.60 million had been allocated for this purpose. However, only 1,850 meters out of the expected distance of 4,250 meters had been reconstructed and the desired objectives could not be achieved. This was further confirmed by the flood situation in Galle city in October 2023, less than 10 months after the completion of the project.

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Further, the maintenance of Moragoda Ela and Moda Ela had been transferred to the Provincial Irrigation Department. However, the expected flood control had not done properly by the Department and silt and aquatic plants were breeding in the area.

- (ii) A sum of Rs. 650 million had been provided for Rehabilitation of Bridges. However, 08 works had been executed for the construction of bridges along the Moragoda Ela and the Moda Ela at a cost of Rs. 841.92 million. Accordingly, it was observed that about Rs. 200 million had been used more than the estimate for the construction of bridges. However, only 03 bridges related to Moragoda Ela and Moda Ela were identified at the initial stage however 08 bridges had been constructed at the project winding up.
- (iii) Although Rs. 1,126.9 million had been allocated for 05 GMC drainage construction projects, 02 projects valued at Rs. 672.1 million had not been fully implemented.

(b) US\$ 16.88 million equivalent Rs. 2,194.40 million had been provided for urban upgrading of Galle City. Under Component No. 2.2 and Rs. 1626.36 million had been spent by the project as at 31 December 2022. Following observations are made in this regard.

- (i) It was also planned to develop the City Center area under the Development of Galle City, however the project was not implemented 6 sub projects.
- (ii) It was also planned to develop the China Garden area under the Development of the City of Galle, however the project was not implemented 05 sub projects.
- (iii) The consulting company had identified eight flood control points along the banks of the Moragoda Ela, however the project had failed to carry out the land acquisition activities for the development of these sites for the purpose of preparing a wetland management plan. The land acquisition activities were suspended due to lack of proper coordination with the institutions with the Land Acquisition Authority located in the area. More over construction of 16 flood control sewer systems in Galle town had not been started due to land acquisition issues. This situation had been badly affected on the achievement of the objectives of the project.
- (iv) A sum of Rs.270.85 million had been spent on the development of Dharmapala Park in Galle, which was not identified at the initial stage of the project however constructed under Component No. 2.2. An agreement was signed at a value of Rs. 2.39 million with a private company for a contract for the installation of an electric generator in that park on 17 December 2021 and the machine is to be supplied and installed within 28 days but the machine was supplied on 23 January 2023. However, as the machine could not be supplied at the agreed contracted value, the supplier had submitted a revised amount of Rs. 4.53 million. The price variation was about 93 percent and the approval of the procurement committee had given only under the concurrence of one member of the procurement committee but no revised agreement was signed. It was a problematic issue in audit.

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Component 04- Jaffna City development.

- (a) The objective of the component 4.1 was to improve traffic management and public transport in Jaffna city and US\$ 15.50 million equivalent Rs. 2,299.73 million (according to the exchange rate on 31.12.2016) had been allocated. A sum of Rs. 2,383.70 million had been spent by the project as at 31 December 2022. The following observations are made in this regard.
- (i) US\$ 15.20 million equivalent Rs.2,255 million were allocated for the development of 14 km from Point Pedro to Kodikammam and 16 km from Jaffna to Ponnai Under component number 4.1.1 however a sum of Rs.893.45 million had been spent to develop the section from Jaffna to Ponnai and the work had not been completed at the end of the project.
- Further it was observed that the ministry had paid a sum of Rs. 13.69 million to the contractor on 14 June 2023. A sum of Rs. 43.27 million was deducted from that bill as liquidated charges for 61 days. However, it was observed that a sum of Rs.210 million should have been charged as liquidated charges for 296 days according to the completion certificate. Accordingly, the project had incurred a loss of Rs.166.72 million.
- (ii) US\$ 0.30 million equivalent Rs. 44.51 million had been allocated to prepare plans for traffic management and public transport for Jaffna city, however the works had not been fully implemented under the component 4.1.2.
- (b) The objective of the component 4.2 was to improve the drainage systems of Jaffna city, and US\$ 21.5 million equivalent Rs. 3,189.95 million had been allocated for that and Rs.223.08 million had been spent by the project as at 31 December 2022. The following observations are made in this regard.
- (i) Although US\$ 11.9 million equivalent Rs.1,766 million had been allocated for Design and supervision service, Drainage Master plan & detailed design of priority investments, priority investments selected under Drainage Master plan, Equipment for drainage operation and maintenance under component 4.2.3, 4.2.4, 4.2.5, 4.2.6 however none of those activities had been carried out.
- (ii) Although US\$ 4.80 million equivalent Rs.712 million had been allocated for the reinstatement of existing drains and a sum of Rs. 82.85 million had been spent however only 4 systems had been developed under component number 4.2.1.
- (iii) US\$ 4.5 million equivalent Rs. 668 million had been allocated for the Ponds embankment preservation & de-siltation works under component number 4.2.2. However, a sum of Rs. 141 million had been spent and only one project had been completed at the end of the project.
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- (c) US\$ 21.9 million equivalent Rs. 3,249 million had been allocated under Component 4.3 and Rs.183.95 million had spent by the project as at 31 December 2022. The following observations are made in this regard.
- (i) A sum of US\$ 4.8 million equivalent Rs.712 million had been allocated for the development of the urban recreational area under component number 4.3.4, Although the amount of Rs.84.90 million had been incurred, rehabilitation of Urban Park works in Jaffna -. Phase 2 (Paasaiyoor Park) had not been completed by 31 December 2022.
 - (ii) US\$ 4.8 million for Component No. 4.3.1- Cultural heritage, US\$ 4.5 million for component No. 4.3.2 - Urban streets, US\$ 2.7 million for component No. 4.3.3 -Mobility enhancement, US\$ 3 million for Jaffna town area and US\$ 15.4 million for component No. 4.3.7 had been allocated but none of those projects had been carried out at the end of the project.
- (d) Although US\$ 2.05 million or Rs. 304 million had been allocated to the Jaffna Municipal Council for the capacity building under component No. 4.4, the capacity building programme had not been carried out.
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3.2 Fruitless Expenses

Audit Issue

Response of the Management

Auditor's Recommendation

The contract for implementing the flood control system in Galle city was suspended due to implementation difficulties. Due to that, the amount of Rs.21.49 million paid to the consultant for design and construction was a fruitless expenditure.

This consultancy contract is related to evaluation design and construction of flood Mitigation through improves the cannels due to the various reasons some canals are abanded.

Loan fund should be utilized effectively.