

Metro Colombo Urban Development Project - 2013

The audit of financial statements of the Metro Colombo Urban Development Project for the year ended 31 December 2013 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 (GOSL) and the International Bank for Reconstruction and Development (IBRD).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Metro Colombo Urban Development Project, the Urban Development Authority (UDA), the Sri Lanka Land Reclamation and Development Corporation (SLLRDC) and the Colombo Municipal Council (CMC) 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 to rehabilitate, improve and maintain local infrastructure and services through selected demonstration investments. According the Loan Agreement, the estimated total cost of the Project is US\$ 321 million and out of that US\$ 213 million or 66.35 per cent is agreed to be financed by the IBRD. The Project commenced its activities on 10 July 2012 and is scheduled to be completed by 30 June 2017.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following,

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project Management and the reliability of books, records etc. relating to the operations of the Project,
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc,
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,

- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether the opening and closing balances withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date, and
- (h) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and,
- (j) Whether financial covenants laid down in the Loan Agreement had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state

of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs. 2,358,850,955 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 2,536,381,880. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and cumulative expenditure as at 31 December 2013 is given below.

Item	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013 Rs.	2012 Rs.	Rs.
Computer Hardware and Accessories	4,910,650	8,180,788	13,770,438
Office Equipment	1,568,901	351,976	2,620,997
Furniture and Fittings	10,049,446	932,656	11,541,544
Motor Vehicles	31,960,000	16,504,000	48,464,000
Development Expenditure	2,310,361,998	145,529,164	2,459,984,901
Total	<u>2,358,850,995</u>	<u>171,498,584</u>	<u>2,536,381,880</u>

4.2 Special (Dollar) Account

According to the financial statements and information made available, the operations of the Special (Dollar) Account during the year under review are summarized below.

	<u>2013</u>	
	<u>US \$</u>	<u>Rs.</u>
Balance as at 01 January 2013	3,039	386,406
Add: - Receipts	32,116,355	4,059,759,618
- Foreign Exchange Gain	--	123,719,882
	32,119,394	4,183,865,906
Less: Withdrawals	17,225,767	2,236,479,495
Balance as at 31 December 2013	<u>14,893,627</u>	<u>1,947,386,411</u>

5. Audit Observations

The following observations are made.

- (a) A contract for the improvements on walkability of the street of Vauxhall Street, T.B Jayah Mawatha and Kumaran Ratnam Mawatha had been awarded at Rs. 522,782,319 and out of that, a sum of Rs. 292,241,008 had been paid as at 31 December 2013. At the audit examination it was revealed that the improvement works carried out on the pavements by the sides of the Vauxhall Street were not up to the standard due to lack of leveling of surfaces of the pedestrians' foot path, use of paving blocks of inferior quality and accumulation of storm water by the sides of carriageway. Further, the earth filling had not been properly done on the pedestrian footpath of the T.B. Jayaha Mawatha which improved using concrete walls on sites. Therefore, it was observed that the safety of pedestrians of such roads was not ensured through the improvements made under the contract.
- (b) A Model Zone Development in Town Hall Square had been carried out under a contract valued at Rs 77,234,251 and out of that, a sum of Rs 68,756,893 had been paid as at 04 April 2014. However, the turfing works had been carried out without leveling the surface properly. Further, it was observed that maintenance of the ground had been carried out poorly and as a result, weeds and other small plants are growing on the turf. Further, tiled surface around the building had been used by the outsiders and remained without being cleaned.
- (c) A contract for the improvements of public lavatories at seven different locations in Colombo under the component of Improvement of Public Conveniences had been awarded at Rs 50,953,800 and out of that, a sum of Rs 43,960,666 had been paid thereon as at 25 March 2014. The improvement works had been completed on 24 June 2013.

The following shortcomings were revealed at the test examination carried out at five out of seven lavatory complexes.

- malfunctioning of water system
- malfunctioning of water sensor system
- several taps and equipment were not in working condition
- corroded Electric Equipment
- door fixed for males lavatory was removed by unknown person
- rain water leaking from the roof

Although these constructions existed in defect liability period such defects had not been identified and referred for rectification by the contractor.

- (d) A sum of US\$ 49.4 million equivalent to Rs. 5,626.66 million had been allocated for improvement of infrastructure facilities and capacity building of 4 Local Authorities in Colombo Metro.

Details of fund utilization of the Municipal Councils are given below.

Municipal Council -----	Amount allocated		Funds utilized as at 31 December 2013
	US\$ M	Rs. M	Rs. M
Colombo MC	36.2	4123.18	884.30
Sri Jayawardanapura MC	6.1	694.79	9.40
Dehiwala MC	4.9	558.11	16.60
Kolonnawa Urban Council	2.2	250.58	--
	<u>49.4</u>	<u>5626.66</u>	<u>910.30</u>

According to the above information, the funds allocated for the Kolonnawa Urban Council had not been utilized during the year under review. Therefore it evidenced that burning problems such as lack of sanitation facilities, weak condition of the roads in the Local Authority area and lack of physical resources for the Municipal Council had not been identified and addressed in priority basis.

6. Financial and Operating Review

6.1 Financial Review

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds up to 31 December 2013 are shown below.

Description	Amount agreed for financing according to Loan Agreement		Budgetary Provision for the year 2013	Funds utilized during the year 2013		Funds utilized up to 31 December 2013	
	US\$ Mn	Rs Mn	Rs Mn	US\$ Mn	Rs Mn	US\$ Mn	Rs Mn
IBRD	213	27,890.22	4,000.00	16.68	2,183.90	19.18	2,510.96
GOSL	108	14,141.52	900.00	3.16	413.31	3.66	478.22
Total	<u>321</u>	<u>42,031.74</u>	<u>4,900.00</u>	<u>19.84</u>	<u>2,597.21</u>	<u>22.84</u>	<u>2,989.18</u>

According to the above information the ratio on utilization of funds was remained very low during the first two years of operation.

6.2 Physical Performance

Project activities had been performed under 3 components. Financial and Physical Performance of such activities as at 31 December 2013 are given below.

(a) Component 1 – Flood and Drainage Management

US\$ 147.5 equivalent to Rs. 16,800.25 million had been allocated for 3 sub components and 4 contracts valued at Rs.1,148,59 million had been awarded and a sum of Rs. 239 million had been spent as at 31 December 2013. Details of work done are given below.

Package Number	Name of the contract	Contract value without VAT	Amount Paid	Physical Progress as at 31 December 2013	
				Progress planned	Actual Progress
		Rs. Mn	Rs. Mn	Percentage	
SLRDC/W/02	Aluthmawatha Culvert, Muthuwella Box Drain, Mutwal Tunnel Main Holes, Canal Bank Improvements at Mutwal Sea Outfall and Canal Bank Protection of Main Drain	409.97	194.30	60	60
SLRDC/W/01	Construction of canal bank protection works of Dehiwala Canal.	193.85	21.60	40	40
UDA/W/03-A	Canal Bank protection Eastern bank of East Beira Lake	269.86	23.10	41	40
UDA/W/03-C	Canal Bank protection Eastern bank of West Beira Lake	274.91	--	6	4
Total		1,148.59	239.00		

(b) Component 2 – Urban Development Infrastructure Rehabilitation and Capacity Building for Metro Colombo Local Authorities

Under this component, US\$ 50.6 million equivalent to Rs. 5,763.34 million had been allocated for 17 activities under 3 sub components and 15 contracts valued at Rs. 5,642.69 million had been awarded as at 31 December 2013 and out this expenditure amounting to Rs. 910.3 million had been incurred by the Project. Details of Performance of contract as at 31 December 2013 are given below.

Package Number	Name of the contract	Contract value without VAT	Amount Paid	Physical Progress as at 31 December 2013	
				Progress planned	Actual Progress
		Rs. Mn	Rs. Mn	Percentage	
CMC/W/01	Improvement to Public Convenience – Package 01	50.95	46.50	100	100
CMS/W/02	Walkability Improvement – Package 01	239.26	171.70	100	100
CMC/W/04	Walkability Improvement – Package 02	260.50	86.80	100	100
CMC/W/06	Model Zone Development in Town Hall Square – Package 02	308.88	207.40	100	100
CMC/W/08	Walkability Improvement – Package 03	283.51	138.60	100	100
CMC/W/09	Model Zone Development in Town Hall Square – Package 01	77.23	22.60	100	100
CMC/W/07	Town Hall Square Development Package 03	227.64	152.00	100	90
CMC/W/12 (08)	Rehabilitation of Galle Road and R.A. de Mel Mawatha – Package B	1,131.10	58.70	18	15
CMC/W/03	Improvement to Public Conveniences – Package 02	44.95	--	07	12
CMC/W/12(A)	Rehabilitation of Galle Road and R.A.de Mel Mawatha – Package A	813.39	--	07	06
CMC/W/12(C)	Rehabilitation of Galle Road and R.A.de Mel Mawatha – Package C	1,360.92	--	03	03
	Sub-total	4,798.33	884.30	--	--

DMMC/W/02	Infrastructures Development DMMC-Package 02	137.77	--	62	44
DMMC/W/03	Infrastructures Development DMMC-Package 03	68.60	9.80	68	48
DMMC/W/01	Infrastructures Development DMMC-Package 01	<u>246.30</u>	<u>6.80</u>	50	14
	Sub-total	<u>452.67</u>	<u>16.60</u>		
SJKVC/W/01	Infrastructures Development SJKMC Package 01	<u>391.69</u>	<u>9.40</u>	55	36
	Sub-total	<u>391.69</u>	<u>9.40</u>		
	Grand Total	<u>5,642.69</u>	<u>910.30</u>		