

Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund - 2015

The audit of financial statements of the Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund for the first accounting year ended 31 December 2015 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 the Section 2.07 (b) of Standard Condition of Grant Agreement No.TF 011617 dated 12 September 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Fund

According to the Grant Agreement of the Trust Fund, then Ministry of Defence and Urban Development, presently Ministry of Megapolis and Western Development is the Executing Agency of the Trust Fund. The Implementing Agencies of the Trust Fund are Urban Development Authority, Sri Lanka Land Reclamation and Development Corporation and the Colombo Municipal Council. The objective of the Trust Fund is to enhance the capacity of the Government of Sri Lanka to identify, assess and reduce the vulnerability of the Sri Lanka's urban environment to natural disasters. According the Grant Agreement, the estimated total cost of the Project of US\$ 900,000 equivalent to Rs.118.80 million was agreed to be provided by the International Development Association. The Trust Fund commenced its activities on 12 September 2012 and scheduled to be completed by 30 July 2014. The period of the operations of the Trust Fund had been extended subsequently up to 31 January 2017. The financial results of the Trust Fund had been amalgamated and presented with the financial statements of the Metro Colombo Urban Development Project up to 31 December 2014 and action had been taken to present separate financial statements for the Trust Fund for the year ended 31 December 2015 onwards.

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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

Trust Fund's preparation and fair presentation of the financial statements 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 the Trust Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the Trust Fund management and the reliability of books, records, etc. relating to the operations of the Trust Fund.
- (b) Whether the expenditure shown in the financial statements of the Trust Fund had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Trust Fund.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Trust Fund from the funds of the Government of Sri Lanka and the Donor Agency, the progress of the Trust Fund in financial and physical terms, the assets and liabilities arising from the operations of the Trust Fund, the identification of the purchases made out of the Grant, etc.
- (d) Whether the initial deposit, withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Trust Fund and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipments supplied under the Grant had been utilized for the purpose of the Trust Fund.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Trust Fund.
- (h) Whether the financial statements had been prepared on the basis of the Generally Accepted Accounting Principles, and
- (i) Whether financial covenants laid down in the Grant Agreement had been complied with.

2. Financial Statements

2.1 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 the opinion that,

- (a) the Trust Fund had maintained proper accounting records for the first accounting year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Trust Fund as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposit, withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Trust Fund and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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 Grant Agreement and
- (e) the financial covenants laid down in the Grant Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

The financial statements of the Trust Fund for the year ended 31 December 2015 required to be submitted to the Auditor General on or before 31 March 2016, as required by the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning had only been submitted on 27 May 2016.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and the utilization of funds as at 31 December 2015 are shown below.

Source	Amount agreed to be financed as per Grant Agreement		Provision made in the Budget Estimate for year 2015	Fund Utilized as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
Grant	0.90	118.80	23	0.09	12.43
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	0.90	118.80	23	0.09	12.43
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3.2 Physical Performance

According to the Implementation Plan, the activities of the Trust Fund had been expected to carry out under 04 components namely, Metro Colombo Integrated Flood Risk Assessment, Preparation of Metro Colombo Flood Risk Mitigations Strategy and Action Plans, Development of Monitoring and Evaluation System and Project Management and Administration in order to achieve the objectives of the Trust Fund. However, such activities had not been commenced as planned and as a result, the period for funding had been extended further 2 ½ years in 02 occasions from 30 July 2014 to 31 January 2017. According to the progress reports of the Trust Fund, the action for the preparation of a Master Plan for Wetlands in the Metro Colombo City Region had only been initiated during the year under review.

3.3 Contract Administration

The Project Management Unit had invited bids from local and international consultancy firms to prepare a Master Plan for Wetlands and to carry out an assessment the water quality in the inland waterways and lakes within Metro Colombo City Region. Contrary to the criteria prepared by the Project Management Unit for the selection of consultants, the consultancy contract had been awarded to an international firm which submitted second lowest bid of US\$ 229,885 equivalent to Rs 30.25 million without considering the lowest bid of US\$ 129,860 equivalent to Rs 17.09 million submitted by other consultancy firm which possessed qualifications of international quality standards and experienced engineering staff.