

## **Metro Colombo Urban Development Project - 2015**

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The audit of financial statements of the Metro Colombo Urban Development Project for the 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 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.

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

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According to the Loan Agreement of the Project, then Ministry of Defence and Urban Development, presently Ministry of Megapolis and Western Development is the Executing Agency and the Urban Development Authority, 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 to rehabilitate, 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 equivalent to Rs.42,031.74 million and out of that US\$ 213 million or 66.35 per cent was agreed to be financed by the International Bank for Reconstruction and Development. The Project commenced its activities on 10 July 2012 and scheduled to be completed by 30 June 2017.

### **1.3 Responsibility of the Management 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 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**

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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 judgment, 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 Project'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 Project'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 Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) 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.
- (d) Whether the opening and closing balances, withdrawals from and the 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 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (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.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purpose for which they were provided,
- (c) the opening and closing balances, withdrawals from and the 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 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 application for reimbursement in accordance with requirements specified in the Loan Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial statements laid down in the Loan Agreement had been complied with.

### **2.2 Comments of Financial Statements**

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#### **2.2.1 Presentation of the Financial Statements**

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The financial statements for the year under review which required to be submitted on or before 31 March 2016 had been submitted for audit only on 28 July 2016.

#### **2.2.2 Non- Compliance with Laws, Rules and Regulation**

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In terms of the Paragraph 3.1 of the Circular No.48 dated 10 December 2012 of the Department of Management Services, special allowances for the Project staff should be paid based on the basic salary of the officers excluding other allowances. However, special allowances for the Project staff had been paid based on the gross salary including other allowances and as a result, a sum of Rs. 10.83 million had been over paid.

### 3. Financial and Physical Performance

#### 3.1 Utilization of funds

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

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year 2015	Funds utilized			
				during the year under review		up to 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IBRD	213.00	27,890.22	5,300.00	18.80	2,556.00	64.00	8,517.00
GOSL	108.00	14,141.52	1,800.00	3.40	466.00	12.80	1,700.00
<b>Total</b>	<b><u>321.00</u></b>	<b><u>42,031.74</u></b>	<b><u>7,100.00</u></b>	<b><u>22.20</u></b>	<b><u>3,022.00</u></b>	<b><u>76.80</u></b>	<b><u>10,217.00</u></b>

The following observations are made.

- (a) Although there must be a comprehensive detailed action plan highlighting financial and physical targets in monthly, quarterly, biannually etc. covering entire Project period with fixing responsibilities to achieve the targets within specific Project period. However, such a plan had not been prepared and implemented even after lapse of 3 1/2 years from the date of commencement of the activities of the Project. Due to this, actual performance achieved by the Project in financial and physical terms could not be ascertained as at 31 December 2015.
- (b) According to the above information, out of total allocation of US\$ 213 million equivalent to RS. 27,890 million, only US\$ 64 million equivalent to Rs. 8,517 million representing 30 per cent had been utilized by the Project as at 31 December 2015. Accordingly, the possibility of usage of balance amount of US\$ 149 million during the rest of the period of the Project 1 1/2 years is in doubt.

#### 3.2 Physical Progress

The following observations are made.

- (a) According to the information made available, 12 sub components are scheduled to be carried out during the period of the Project to mitigate the flood risks in the Colombo water basin. However, it was observed that 14 rehabilitation and improvement works of drainage systems and canals scheduled to be carried out at an estimated cost of Rs. 3,822.68 million had been abandoned during the year under review. Further, 07 rehabilitation and improvement works estimated at a cost of Rs. 6,403 million had

remained in the design stage whilst the procurement process on 09 other rehabilitation and improvement works were being continued as at 31 December 2015.

- (b) According to the information made available, the construction of Liner Park along Beira Lake and infrastructure development works in Sri Jayawardhanapura Kotte Municipal Council area had reported slow physical progress of 10 per cent and 11 per cent respectively as at 31 December 2015. Further, the activities of rehabilitation of Gregory's Canal and construction works carried out at Crows Island Beach Park had reported the physical progress of 51 per cent and 77 per cent though it was expected to achieve the target of 84 per cent and 100 per cent of physical progress respectively as at 31 December 2015. In addition, the activities carried out to improve the public conveniences under the Component of Urban Development Infrastructure Rehabilitation and Capacity Building for Local Authorities in Metro Colombo had reported the physical progress of 44 per cent though it was expected to achieve the target of 94 per cent as at 31 December 2015.

Eventhough the activities of the Project were experiencing with slow progress in implementation of the activities as mentioned above, the Project Monitoring Unit had not taken step to expedite works of the Project. It was observed that the meetings of Project Steering Committees and monthly progress review meetings etc, had not been held regularly as enable to monitor the activities of the Project and as a result, the follow up actions had not been implemented. Further, it was observed that the Project Director had been appointed on part time basis since June 2012 and not devoted his full capacity and time for the successful implementation of the activities of the Project.

### **3.3 Contract Administration**

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The following observations are made.

- (a) It was observed that a proper designs of the works and cost estimates thereon had not been prepared for the activities of the Project. As a result, 22 contracts awarded at an estimated cost of Rs. 7,361 million could be completed only at a cost of Rs. 6,441 million. Therefore, the mobilization advances thereon had been released at overestimated cost of the contracts, allowing opportunities for undue financial gains to the contractors. Further, it was observed that the scope of the works of Baddagana Bio-diversify Park had been changed significantly and works estimated at a cost of Rs. 48 million, out of the works estimated cost of Rs. 202 million had been reduced.
- (b) It was observed that the Project had not considered the working capacities of the contractors and awarded several contracts to the same contractors and as a result, time extensions had been frequently allowed to the contractors. According to the information received, the period ranging from 22 days to 114 days had been extended to completed the works under 06 contracts awarded at an estimated cost of Rs. 374 million. Further, the time extensions ranging from 117 days to 209 days had been granted to other contractors who were awarded 05 contracts valued at an estimated cost of Rs.1,620 million. In addition, period of extensions ranging from 98 days to

188 days had also been awarded to 03 other contractors who engaged in 09 contracts awarded at an estimated cost of Rs. 4,724.09 million.

- (c) According to the Project Performance Report and Procurement Plan as at 31 December 2015, consultancy works on infrastructure developments, solid waste management systems and resettlement planning etc. had not been completed as at 31 December 2015 even after the delays ranging from 1 ½ to 2 ½ year from the dates agreed to be completed.

### **3.4 Matters in Contentious Nature**

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The Project had procured 02 different computer software packages at a cost of Rs. 33.88 million for designing purposes of the flood controlling and drainage systems of the City of Colombo, without calling for competitive bids. However, the software packages procured on 12 March 2012 at a cost of Rs. 19.35 million had remained idle since then, as it was not complied with specifications made by the Colombo Municipal Council. As a result, the designing activities of the flood controlling and drainage systems had not been commenced even after 02 year from the scheduled date.

### **3.5 Extraneous Activities**

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Eventhough the approval from the Lending Agency had been received to procure utility vehicles, the Project had procured 02 motor vehicles and a passenger coach with luxury facilities at a cost of Rs. 59.14 million. Out of that, 01 motor vehicle had been released for the use of Line Ministry. The passenger coach had been released for the use of a public corporation and it was revealed that the respective coach was used for the staff welfare purposes of the corporation.