

Strategic Cities Development Project - 2020

The audit of financial statements of the Strategic Cities Development Project for the year ended 31 December 2020 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 Additional Financing Agreement No. 5800 – LK dated 20 July 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the Ministry of Urban Development and Housing presently, then Ministry of Megapolis and Western Development is the Executing Agency and the Urban Development Authority (UDA) is the Implementing Agency of the Project.

The objectives of the Project is to improve selected urban services and public urban spaces in the Participatory City Regions of Sri Lanka. The activities of the Project are implemented under four components namely Kandy City Region Urban Intervention, Galle City Region Urban Intervention, Jaffna City Region Urban Intervention and Project Management.

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 Rs 7,405.48 million 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. However, the date of completion of the activities of the Project had been extended up to 31 December 2021.

1.3 Opinion

In my opinion, except for the effects of the matters described in the Table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

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 Responsibilities of management and those charged with governance for the Financial Statements

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

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

Accounting Deficiency	Response of the Management	Auditor's Recommendation
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(a) A provision of Rs.1.5 million for the compensation required to be paid as per the direction given by the Labour Court had not been made in the financial statements.	We agreed with the comment.	The value of the payables as at end of the year should be shown in the financial statements.
(b) The retention money of Rs.2.24 million relating to a construction contract had been erroneously accounted as Rs.22.41 million during the year under review. As a result, balance of the retention and drainage improvement account had been overstated by Rs.20.17 million.	This has been the typographic error	The actual value of retention should be shown in the Financial Statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	Audit Issue	Reason for Delays	Response of the Management	Auditor's Recommendation
(a) Project Development Objectives (PDO)	Urban infrastructure Development	According to the project agreement, the project scheduled to be completed by end of 2019. However, the project period had to be further extended up to 31 December 2021 due to the poor performances. Further, although the expected beneficiaries of the project was 600,000 people, the actual beneficiaries had decreased to 400,000 people.	poor performance of project activities.	Expected beneficiaries reduction from the project is mainly due to the taking out of KMTT activity and cancelation of US\$ 92.0 mn (US \$ 27.0 for Covid and US\$ 65.0 for KMTT)	Sound and effective project management system should be implemented in order to achieve the project objectives through completing of project activities as per the scheduled time period.
(b) Flood Control System in the City of Galle .	Improvement of water retention Areas and flood control drainage systems	After being studied the development activities to be required to carried out in the city of Galle, the consultancy firm had identified 10 locations as flood control points where situated along the Moragoda cannal beds. In order to develop those locations as Water retention lands, the project had failed to acquire the required lands and a plan for the Wetland Management had not been prepared. Due to the construction of the Gall administration complex	Lack of proper coordination between the respective public authorities in Galle	A plan for the Wetland Management had not been prepared	Land acquisition activities should be carried out keeping proper coordination with the respective other government institutes. The identified public needs should be fulfilled implementing efficient Project Management System.

and other land acquisition proposals, the land acquisition activities had been suspended.

Accordingly, it was revealed that without maintaining proper coordination between the related institutions, the feasibility study had been carried out.

Further, the construction works of 16 flood control drainage systems in the city of Galle had not been started and required lands for the works had not been acquired. This situation had been directly affected to performances of the project and to the flood controlling activities.

(c) Rehabilitation of Kandy Multimode Transport Terminal (KMTT)

Financing for the construction work of Kandy Multimode Transport Terminal (KMTT) at a cost of Rs.9,316.60 million (US\$ 60.11 million), had been suspended by the IDA due to the lack of adequate time period to complete the construction works within the Project's duration even after incurring of Rs.419.52 million.

Delays in resettlement and Design activities

USD 65mn has been removed from the World Bank fund allocated for SCDP as per the decision taken by the Ministry of Urban Development & Housing.

Sound and effect project management system should be implemented in order to achieve the project objective through completing project activities comprehensively.

3.2 Contract Administration

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
<p>(a) The project activities had been commenced in the year 2014 and scheduled to be completed in the year 2021. Even after lapsed of 6 years only 57 contracts for constructions, goods and consultancies valued at US\$ 35.44 million had been completed and this represent low progress of 17 per cent compared to the total value of the project. Out of the identified contracts valued at US\$ 0.66 million, 4 contracts at the procurement stage. 23 contracts valued at US\$ 40.95 million, had been implemented during the year under review.</p>	<p>No Comment</p>	<p>After being evaluated the current Progress, corrective actions should be taken to expedite the remaining construction works.</p>
<p>(b) The Construction works of Jaffna, ponnalein point - Peduru Road (AB21), the construction cost of Rs.1, 110.15 million, had been started 12 August 2019 and expected to be completed 15 May 2021. However, the physical progress of the construction works up to March 2021 was only 33 per cent compared to the expected progress of 65 per cent as that date. Out of 46 culverts of the road only 21 culverts had been fully constructed and 8 culvers had been partly completed. Inadequate supplying of required material and labour to the site and lack of timely supervision by the consultants, were directly attributed for the delays. Further, 02 months time extension had been granted to the contractor to mitigate the current situation.</p>	<p>Performance of the contractor was very poor.</p>	<p>After being evaluated the current Progress, corrective actions should be taken to expedite the remaining works.</p>
<p>(c) The construction works of Jaffna (AB-31) road had been awarded to a contractor for Rs.1,122.9 million. Compared to the BOQ Rates submitted by the contractor with Engineer estimates, significant variances were observed. However, a rate analysis had not been conducted by the project in that regard. Further, the BOQ rates had been subsequently amended due to design changes and as a result 54 BOQ items valued at Rs.85.23 million had been cancelled. Nevertheless, a sum of Rs.87.52 had been paid to the contractor for additional works.</p>	<p>This contract was awarded with the cabinet approval after being evaluated by a TEC and recommended by the SCAPC.</p>	<p>(i) Sound and efficient contract management system should be implemented in order to achieve the Project objectives through completing Project activities.</p> <p>(ii) Price analysis of the BOQ items should be conducted by the project.</p>

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| (d) | Due to delaying the submission of design plans and failure to conduct procurement activities in time based on those plans, 09 sub-project scheduled to be implemented in Jaffna City at the estimated cost of Rs.3,380.70 million (US\$ 19.66 million) had been suspended as at end of the year under review. As a result, it was unable to achieve the expected benefits of the sub-projects. | Agreed with the comment | Sound and effective project management system should be implemented in order to achieve the project objective through completing project activities according to the entire physical plans of the project. |
| (e) | Due to the management of project's implementation activities inefficient manner since the year 2015, five sub-contracts that had been awarded at a cost of Rs.3, 618.18 million (US\$ 20.19 million) had to be suspended without being completed. Therefore, in order to complete the activities of those sub-project before end of the project Period by 31 December 2021, the estimated cost of 8 ongoing projects, had been amended up to 340.64 million while changing the scope of the sub-projects. As a result, the expected benefits could not be achieved from those projects. | Agreed with the comments | Sound and effective project management system should be implemented in order to achieve the project objective through completing project activities according to the entire physical plans of the project. |

3.3 Idle and Underutilized Resource

Audit Issue	Response of the Management	Auditor's Recommendation
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According to the information received, only a sum of US\$ 72.61 million equivalent to Rs.11,645.24 million representing 36 per cent of the total allocation of US\$ 202 million equivalent to Rs. 27,507 million made by the Lending Agency had been utilized as at 31 December 2020, even after lapse of 6 ½ years from the commencement of the activities of the Project. Further, the balance of US\$ 3.93 million equivalent to Rs.732.60 million had been remained in the Special (Dollar) Account without being utilized by the Project as at 31 December 2020, due to slow progress of the activities of the Project and poor financial forecasting.	agreed with the comment. Original finance for US\$ 147.0 mn starting date was 1 st July 2014 and additional finance US\$ 55.0 mn effective from 19/10/2016. The reason for the lower fund allocation was due to the physical performance of the project not on the implementation target.	Action should be taken to monitor the Action plans with the actual performance in order to take remedial actions in timely manner and make use the allocated funds in full.

3.4 Issue Related to Human Resources Management

Even though the approved cadre of the Project consisted with 140 various categories of the posts, actions had not been taken to fill the 51 vacant posts including 16 key posts of Deputy Project Directors and Senior Engineers over 03 years. It was further observed that 78 Project officers had been left from the service since the year 2014 and existing carder had been revised in November 2020 .The above mentioned shortages and carder revision of staff had mainly influenced for the slow progress of the Project.

Cadre Position	No of Posts			Audit Issue	Response of the Management	Auditor's Recommendations
-----	Approved	Actual As at 31 December 2020	No. of vacancies / excess	-----	-----	-----
All staff	140	89	51	Even though the approved cadre of the Project consisted with 140 of officers, actions had not been taken to fill the 51 vacancies remained in 16 posts including key posts of Deputy Project Directors and Senior Engineers over 03 years. The above mentioned shortages of staff had influenced mainly for the slow progress of implementing of the activities of the Project.	Although there were needs, no recruitments were made during the last part of 2019 and in the year of 2020 as the government had taken a policy decision to restrict recruitments. At the end of year 2020 the project implementation has been given to Urban Development Authority and accordingly the staffing strength of the project has been further restricted. Therefore, the existing staff is considerably low against the approved cadre.	Vacant posts should be filled as per the approved Cadre.

3.5 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
(a) According to the letter of the Director General of National Planning Department, No. NP/UDH/UD/3/13/1 B dated 9 February 2021, the savings of the project amounting to US\$ 27 million should be utilized for the priority development projects of the urban development. However, that saving use for the covid -19 vaccination programme.	Agreed with the observation	Treasury instruction should be followed
(b) According to the agreements entered by the Project on hiring of motor vehicles of maximum limit of 2500 kilometers per month is required to be run and additional charges are needed to be paid for excess kilometers. It was observed that a sum of Rs.3.06 million had been spent by the Project on running of 58,575 kilometers in excess without exceeding maximum limit of 2500 Kilometers. Further the project had not called bids for the year under review and used services from two rent vehicle owner companies which are selected in previous year.	It is noted to improve this status in the coming months.	Project costs should be incurred according the principals of economy and efficiency.
(c) A Double cab had been given to the Additional Project Director (APD) on rental basis for monthly rent of Rs. 210,000. However, instead of use the rented cab for the official duties, the APD had used his own vehicle with self-driving and claimed a sum of Rs.2,750,443 from the project as vehicle rent through the vehicle hiring company. Nevertheless the project had not taken any action on that regard considering it as fraudulent matter.	It is advisable to have a full investigation on this matter.	Project costs should be incurred according the principals of economy and efficiency.