

Metro Colombo Urban Development Project - 2020

The audit of financial statements of the Metro Colombo Urban 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 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 (IBRD). 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 Project

According to the Loan Agreement of the Project, Ministry of Megapolis and Western Development, presently the Ministry of Urban Development Water Supply and Housing is the Executing Agency and the Urban Development Authority, the 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, 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 equivalents to Rs. 42,031.74 million and out of that US\$ 213 million equivalents to Rs. 27,890.22 million 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. Subsequently, the period of the Project had been extended up to 31 December 2021.

1.3 Opinion

In my opinion, 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 Generally Accepted Accounting Principles.

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 this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 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 as necessary to enable the preparation of financial statements that are free from material misstatements, 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 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

No	Accounting Deficiencies	Management Responses	Auditor's Recommendation
(a)	A uniform method had not been adopted to recode the interest payment on foreign Loan and interest payment of Rs. 68.54 million and Rs. 155.27 million for the year 2016 and 2017 respectively had only been brought to the financial statements.	The Financial year 2018, 2019 & 2020 interest charges was not accounted due to non-availability of finalized interest charges from the Treasury.	Action should be taken to account the relevant Project expenses prior to preparation of financial statement.
(b)	A sum of Rs. 87.40 million recovered from the contractors as liquidated damages had been shown erroneously as payables to the contractors under the current liability of the financial statements.	The remaining amount of unclaimed liquidated damages will be adjusted in financial statement in the year 2021	Action should be taken to adjust the relevant lager accounts.

2.2 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non Compliance	Management Response	Auditor's Recommendation
(i)	Financial Regulations 751	An Inventory Register had not been maintained by the Real Time Flood Control (RTC) – sub project	Inventory register is maintained. But there are lapses and action has been taken to rectify.	Need to comply with circulars instruction.
(b)	Paragraph 09 of the Circular No 01/2019 of 15 March 2019 of the Department of Management Service.	The meeting of the Project steering committee is required to be held once in 02 months. However, none of the meetings had been held during the year under review.	Steering committee meetings were not held in year 2020, as per the directive from the line ministry	Project Steering Committee meetings should be conducted as per circular instructions.

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Project

No	Component	As at 31 December 2020			Audit Issue	Response of the Management	Auditor's Recommendation
		Expected physical performance	Performance achieved				
			Physical	Financial			
(a)	Design & Building of New Mutwal Torrington Tunnels	100	76	66	Due to those significant delays, overall Project duration had to be extended up to June 2021 and general public had affected the	Metro Colombo Urban Development Project period has been extended up to 31 December 2021, in early 2020 without considering the Covid	Action should be taken to expedite the works within a scheduled contract period and closely monitor the contract works by the Project Monitoring Unit.
(b)	Development of bio – diversity park at Kotte Rampart	80	100	72			

(c)	Design & Building of St. Sebastian North Lock Gates and Pumping Station	100	96	91	inconveniences of the construction works. Further, Expected benefits could not be achieved in timely manner by the general public and expected cost of the activities were over run.	effect. WHO has declared a Global Pandemic situation in March 2020 and even at present (Quarter 4 of 2021) we are still in the same situation. The Covid 19 impact to the project is immense and it hampered the project progress.
(d)	Kollonnawa Canal Diversion Scheme Stage –I	100	89	78		
(e)	Design and Building of Ambatale Strom Water Pumping Station	100	89	74		
(f)	Improvement to Madiwala East Diversion stage III	100	98	75		
(g)	Improvement of Norris Cannel	100	80	64		
(h)	Kolonnawa Canal Diversion scheme stage IV	100	83	77		
(i)	Plant design supply and Installation of pump station of St. Sebastian south lock.	100	86	64		

3.2 Delays in Completion of Activities of the Project

No	Activities	Date scheduled to be completed	Date of Taking Over	Delays (Days)	Responses of the Management	Auditor's Recommendations
(a)	Improvements of the Norris Canal	23 August 2019	Works had not been handed over even up to 05 May 2021	590	Norris canal diversion box drain has not been commenced, due to delay in handing over possession of site.	Action should be taken to expedite the works and need to monitor the works of contractors closely.
(b)	Design and Building of St. Sebastian North Lock Gates and Pumping Station	30 June 2019	Works had not been handed over even up to 05 May 2021	485	Delayed, due to flooding, bad weather condition, Easter Attack and Covid 19 pandemic situation.	-Do-
(c)	Improvements to Madiwela East Diversion Scheme Stage 111	10 January 2018	Works had not been handed over even up to 05 May 2021	1125	Sub-project was delayed, due to delays in the transfer of dedicated high voltage power lines and NWS&DB water treatment pipe supplying water from Ambatale.	-Do-
(d)	Kolonnawa Canal Diversion Scheme Stage 1	29 April 2020	Works had not been handed over even up to 05 May 2021	365	The sub-project was delayed due to delay in completion of the bypass road, bad weather and transfer of utility services. The project had been completed and hand over on 5 May 2020,	-Do-
(e)	Constructions of New Mutuwal and Torrigton Tunnels	30 May 2020	Works had not been handed over even up to 05 May 2021	335	There are uncertainties of completing the project (Torrington tunnels) within this year as we are functioning under a force majeure situation	-Do-

(f)	Development of Bio Diversity park at Kotte Rampart	02 December 2020	Works had not been handed over even up to 05 May 2021	436	The direct and indirect impacts of global pandemic of COVID-19 caused to delay	-Do-
(g)	Kolonnawa Canal Diversion scheme stage IV	28 July 2020	Works had not been handed over even up to 05 May 2021	245	The contract is delayed due to uncertain consequences of Easter Bomb attack and reasons such as labour shortages, General Election, Covid – 19 pandemic.	-Do-
(h)	Plant design supply and installation of pump station of st. Sebastation south lack	30 September 2020	Works had not been handed over even up to 05 May 2021	215	The original contract completion date was extended up to 18.10.2020	-Do-

3.3 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
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(a)	The progress of the construction of the Torrington and New Mutwal tunnels was 65 percent and 88 percent respectively as at 31 December 2020, due to delays in awarding contracts and the Easter attack. Eventhough the construction was scheduled to be completed by 30 May 2020, it was extended up to 30 November 2021. Therefore, the completion of the work on that day was doubtful.	At present extension of time to complete the project has already been granted up to the 21st of December 2021 after considering the Force majeure situation, as per the conditions of the signed Contract.	Action should be taken to expedite the works and need to monitor the works of constructions closely.

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| (b) | Eventhough the construction works of five contracts valued at Rs 6,760.52 million namely design and building of St. Sebastian North Lock Gates and pumping station, Design & Building of Ambatale Storm Water Pumping Station, Development of Bio Diversity Park at Kotte Rampart Kolonnawa Canal Diversion Scheme stage I and stage IV agreed to be completed during the year under review, it had not been completed as agreed. | The completion of the 6 subprojects delayed, due to various reasons such as flood inundation and inclement weather conditions easter attach, Covid – 19 pandamic. | Action should be taken to expedite the works and need to monitor the works of constructions closely. |
| (c) | Contract for upgrades of the Norris Canal awarded on 21 August 2018 at a cost of Rs. 353 million and agreed to be completed by 23 August 2019. However, the slower physical and financial progress of the construction was 78 percent and 58 percent as at 31 December 2020 respectively. Further, the demolition work of the CMC flats at Arnold Ratnayake Mawatha had not been commenced even on 05 May 2021. Therefore, it is doubtful that the construction works would be completed within the project period. | The subproject construction work progress delayed and shown slow progress due to valid reasons . | Action should be taken to expedite the works and need to monitor the works of constructions closely. |
| (d) | A consultant had been hired by the Project to develop and implement Real Time Control System from August 2017 and paid Rs 32.9 million as allowance up to 30 June 2020. However, the service of the consultant had been discontinued suddenly without completing the works. As a result, expected outcome had not been received from the consultant to the Project. | Not clearly answered | Need to adhere with objectives of the Project and take necessary action to minimize the operation cost of the project. |

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| (e) | Two consultancy contracts for the design and construction supervision of the Bambalapitiya and Kollupitiya pedestrian overhead bridge were awarded at a cost of Rs. 27.22 million to a Company in December 2013. The consultant fee amounting to Rs. 16.79 million was paid for not informing the company that the construction did not comply with the Mega Polish Master plan. | Not clearly answered. | Need to adhere with objectives |
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3.4 Payments made out of the Project Objectives

Audit Issue	Response of the Management	Auditor's Recommendation
A sum of Rs. 5.96 million paid for advertisement charges incurred by the Ministry of Urban Development Water Supply and Housing had been brought to the Project accounts as Project expenses.	According to the JE/02/01/2020, LKR 5.96 MN advertisement charges incurred by the Ministry of Megapolis & Western Development had been accounted in the Ministry Financial record as advertisement expenditure and subsequently it has been charged to GOSL expenditure at the time of closing the Ministry Accounts.	Need to adhere with scope of the Project.

3.5 Matters pointed out in previous audit reports which remained unresolved

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	A house in Battaramulla area was rented out at a cost of Rs. 6 million to set up a Real Time Flood Control Unit. However, a sum of Rs.10.43 million had been paid as rent, electricity and sanitary facilities for a rented space in the Sethsiripaya Phase 11 building in Battaramulla without being used this building for that purpose.	Real Time Control (RTC) center initially established at a rented out building at Battaramulla in small scale in 2016. Since the space is inadequate to expand the activities, Part of Wing 'C' of 10 th floor of Sethsiripaya also rented out in 2017 and step by step expanded the activities of RTC.	Take necessary action to minimize the operational cost of the Project.
(b)	Eventhough the Project had incurred a sum of Rs. 164.6 million for development and implementation activities of the Real Time Flood Control System up to 31 December 2020, expected outcome could not be achieved.	Fully developed of Real Time Control (RTC) system was not completed, because the project completion date is 2021 December 31	Action should be taken to expedite the works related to the system.
(d)	According to the information received, the construction works on building for the center for Flood Control and Water Management at Kirimandala Mawatha, Colombo 05 had not been completed even the date of audit on 05 May 2021. As a result, establishment activities of the RCT system at new building had not been able to commenced even on the date of audit on 05 May 2021. Due to this reasons there is no permanent place to fix the asseseries related to this system such as computers, monitors, servers etc. procured at a cost of Rs. 92.15 million. Further, it was revealed that the value of Rs. 643.3 million procurement activities related to this system had to be delayed, due to non-complete of the above building. However, the Project had to be closed in 31 December 2021. It is doubtful in audit the funds allocated to above procurement activities could not be utilized.	As mentioned under response 4.6.c above the accessories/equipment procured are fixed and/or lying at 10th Floor RTC unit and will be shifted to the new building when the construction is over. It is accepted that certain procurements had to be delayed due to delay of completion of the new Building	Action should be taken to influence responsible parties to complete the construction works immediately.