

Metro Colombo Urban Development Project - 2021

The audit of financial statements of the Metro Colombo Urban Development Project for the year ended 31 December 2021 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 Qualified 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 2021 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Qualified 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	Amount Rs. million	Management Responses	Auditor's Recommendations
(a)	Interest amounting to Rs. 2,251.65 million paid by the General Treasury from 2016 to 2021 out of the domestic fund had been shown as Rs.223.82 million only relevant to the year 2016 to 2017 under the World Bank Loan. Further, balance of interest amounting to Rs.2027.83 million relevant for the year 2018 to 2021 had not been brought to the financial statements.	2027.83	<p>The financial year 2016 & 2017 the Loan Interest amount of Rs.223.82 million was informed to MCUDP through Treasury statement and accounted only for the FY 2016 & 2017. Thereafter it was not provided by Treasury and the Financial statement of MCUDP at the project level is submitted excluding the Loan interest cost.</p> <p>Further will re communicate with the Treasury - SL and if require the accounting of Interest on the Loan No 8145 -LK will be affect accordingly.</p>	All costs related to the project should be properly accounted for the financial statements.
(b)	Parity adjustment up to 31 December 2021 had not been brought to the financial statements during the year under review in terms of Para 23 of LKAS 21. As a result, balance of the proceeds of the Loan had been understated by the same amount in the financial statements.	7,864.89	<p>The Parity adjustment up to 31 December 2021 is not taken in the financial statements of MCUDP. The accounting policy for the conversion rate applied as per Central Bank realized conversion rate for each withdrawal application as per the central Bank statement.</p> <p>Further We will investigate with the treasury of Sri Lanka, relevant departments, and will be accounted in the Books if legally required in the next Financial Year.</p>	Project should be complying to the provisions included in the Sri Lanka Accounting Standards.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-Compliance	Management Response	Auditor's Recommendation
Paragraph 09 of the Circular No. 01/2019 of 15 March 2019 of Department of Management Service.	The meeting of the Project steering committee is required to be held once in 02 months. However, only one meeting had been held during the year under review.	Due to restrictions and guidelines imposed to prevent the spread of Covid – 19 pandemics, physical meetings were not possible to conduct during most of the year 2021.	Project Steering Committee meetings should be conducted as per DMS circular instructions.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Component /Sub Component	As at 31 December 2021		Audit Issue under performance	Reasons for delay	Management Response	Auditor's Recommendation
		Expected physical performance percentage	Physical Performance achieved percentage				
(a)	Improvement of Norris channel	100	85	15	the Municipal Council of Colombo had to go for court actions to vacate the two CMC blocks to facilitate the construction activities in front of these two blocks.	As at 31 December 2021, project had completed 53 subprojects out of planned 55 subprojects + IFMS were not completed. As of today, “improvements to Norris Canal” subproject and IFMS are partly completed and all the other subprojects are fully completed. The delay	Actions should be taken to expedite the works within a scheduled contract period and closely monitor the contract works by the Project Monitoring Unit.
(b)	Design & Building of New Mutwal	100	97	3	Due to the lockdown of the country and covid		

and Torrington
Tunnels

epidemic on several occasions, the major plant and equipment had to be imported were delayed and due to complex geological condition.

in completing the “improvements to Norris Canal” subproject is due to reasons beyond the control of MCUDP. CMC had to go for court actions to vacate the 2 CMC blocks to facilitate construction activities in front of these 2 blocks. However, the improvements done so far for the Norris Canal has significantly improved flood mitigation in the area, though expected outcome was not achieved.

(c) Establishment of Real Time control System (IFMS) 100 Not Submitted Not fully completed RTC system

Due to the current economic situation of the country importation of equipment restriction.

3.2 Construction Administration

No Audit Issues

Management Responses

Auditor’s Recommendations

(a) The Real Time Control Centre (RTC) was established to achieve the objectives of the Integrated Flood Management System (IFMS) and its main functions and operations consist of five main core components and one major core component had not been achieved at the end of 2021. The total cost of Rs. 77.4 million incurred thereon and items have already been procured for operation of the RTC system. The RTC system operated without ability to centrally control monitor, pumping station operations and gate operations. The Supervisory Control and Data Acquisition (SCADA) system still had not been installed, due to the non-complete of procurement. As a result, the fund allocated to above procurement activities of the loan could not be utilized.

The integration of centrally controlling and monitoring the pump houses and gate stations from the RTC is not fully established yet (central SCADA system). Further on this is mentioned in the future works section. Partially achieved. Even from this component, monitoring component is done, and the only remaining part is the central integration of the remote controlling of the facilities is not achieved.

Purchases should be expedited and the relevant RTC system should be updated.

- (b) A consultant had been hired 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. Due to this reason expected outcome had not been received from the consultant to the Project.
- The discontinuation of the consultant was not a decision of the project rather a decision from the Ministry at the time. Eventhough the consultant was discontinued, the consultant's services were almost completely taken as almost all of the procurements were started during the period of the consultant, and even for the partially completed component, the consultant has initiated some of the sourcing work relevant to it.
- Sound and effect project management system should be implemented in order to achieve the project objective through completing project activities on time.
- (c) The Project had awarded the contract for improvements to Noris canal at a cost of Rs. 353 million on 21 August 2018 and agreed to complete in 23 August 2019. However, the physical and financial progress of the improvement works had shown slow progress of 85 percent and 68 percent respectively as at 31 December 2022. Further, it was revealed that the demolition activities of CMC flats at Arnold Rathnayake Mawawatha under this contract had not been started. Due to these reason construction activities of the propose drain to be constructed from either side of the flats had not been started. Construction works could not be completed within the Project period.
- The payments for works implemented up to 31 December 2021 for this subproject have been made within the first two quarters of the year 2022.
- After being evaluated the current progress, corrective actions should be taken to expedite the remaining construction works
- Since CMC could not arrange to vacate three storied building in dilapidated condition situated in Arnold Rathnayake Road, because tenants/owners of the housing units have taken legal actions, demolition of the building could not be commenced yet.
- (d) According to the progress report of the Project, work under the construction of Torrington and New Mutwal Tunnels had remained behind the target of 97 percent as at 31 December 2021, due to the various reasons such as delays in awarding contract, Easter attack of year 2019 and Covid 19 pandemic. Further, it was revealed underground survey had not been conducted before awarding the contract and according to the contract agreement, Construction works should have been completed in 30 May 2020.
- Although the progress of work at the end of 31 December 2021 is 97 percent, due to various reasons including what are mentioned in the audit query, the substantial completion has been achieved on 30 April 2022. It is the duty of the Contractor to carryout required underground survey work in this type of construction works.
- Sound and effective contract management system should be implemented in order to achieve the project objectives through completing of project activities according to the scheduled plan of Project.

Although extended the completion date to 30 November 2021, the contract works had not been completed within the Project period.

Although the original contract completion date is at the end of May 2020, due to the various reasons works could not be completed within the original project period.

(e) The activities of the RCT system at new building could not been able to start because of the construction works on building for the centre for flood control and water management at Kirimandala Mawatha, Colombo 05 had not been completed. As a result, there is no permanent place to fix the accessories related to this system such as computers, monitors, servers etc. When the Project closed in 31 December 2021 the funds allocated to above procurement activities could not be utilized. Therefore, a sum of Rs.423 million had been requested from the Government of Sri Lanka for the completion of this work through the 2022 extra line budget and out of that an allocation of Rs.163 million had been received for the emergency.

The building which is being constructed under the Ministry at Kirimandala Mawatha to install IFMS was not ready by 31 December 2021. With the completion of the building, presently the shifting of the RTC system from temporary place to the permanent place. Some procurements were delayed due to the import restrictions imposed due to the Covid -19 pandemic and current situation of the country and as well as due to non-completion of the building. All together Rs. 207 million (Rs.172 million items directly related to IFMS and Rs.35 million for services for the new building) has been requested from the local budget to procure these items in 2022 and complete the payments in quarter I, 2023.

Sound and effective contract management system should be implemented in order to achieve the project objectives through completing of project activities as per the scheduled time period.

3.3 Idle/ Unutilized/ Underutilized Resources

No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	The Project had awarded 02 contracts of consultancy service for design and construction supervision of pedestrian overhead bridge at Bambalapitiya and Kollupitiya to a consultancy firm of a cost of Rs 27.22 million in December 2013 and agreed to complete the design works within 10 weeks. Later Project had abended those works and informed the consultancy firm on 23 May 2016 stating due	The Consultancy firm has carried out certain works related to design of those two identified works including preparation of architectural & structural drawings, bidding documents etc. which have subsequently been handed over to Colombo Municipal Council (CMC). When the new government was formed in the year 2015, a firm directive had not been given at the beginning to the project team regarding continuity of the construction works of pedestrian overhead bridges. However, in the absence of the	Need to adhere with objectives.

to financial and other interference from the Mega polish master plan at that stage. However, a sum of Rs 21.79 million had to be paid to the consultancy firm as consultancy fees, due to the failure of inform the abandonment division in timely manner to the consultant with the direction of the Arbitral Tribunal.

firm instructions, Consultants have continued with their works until the proper order was given for abandoning the work.

Consultants has requested payments for all the implemented works including payments for additionally deployed personnel, but has not been addressed in the manner acceptable to the Consultants.

Matter has been finally resolved through the Arbitration Process and payment had to be made as per the Arbitral Award.

- (b) A sum of Rs.1,000,575 was paid for getting a computer software for project accounting and project review in 2015. However, the software was not installed until June 2020. Therefore, it was not possible to use the software related to the project.

The software development process was not proceed, due to various reasons and the changes of relevant officers on regular interval of the PMU due to leaving out from the employment. Due to the completion of project in 2021 and not availability of SLIIT Technical staff the balance works of the accounting software was not completed.

Corrective action should be taken with regard to the loss.