

Lunawa Environmental Improvement and Community Development Project - 2012

1. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with the Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report

2. Financial Statements

2.1 Financial Performance

According to the financial statements presented and the information made available to audit, the Project expenditure for the year under review amounted to Rs. 248,250,880 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 9,358,948,517 The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 are summarized below.

Item	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2012
	2012 Rs.	2011 Rs.	Rs.
Fixed Assets	-	99,860	536,247,954
<u>Development Expenditure</u>			
Main Civil Works	-	8,136,627	5,809,166,321
Resettlement	61,017,374	100,433,874	796,452,052
Community Improvement	-	14,339	249,793,262
Capacity Building	-	-	45,910,215
Consultancy Services	-	-	925,704,658
Land Acquisitions	53,437,936	41,976,423	444,873,554
Project Management Expenditure	133,795,570	151,826,821	453,401,380
Interest on Loan	-	-	165,760,114
<u>Deduction from Expenditure</u>			
Foreign Exchange Gain	-	-	(55,978,478)
Sundry Income			(64,258)
Refund of pre paid Deposits			(12,318,257)
	248,250,880	302,487,944	9,358,948,517
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3. Audit Observations

3.1 Non – compliance with Laws, Rules, etc.

The following observations are made.

(a) During the course of field audit inspections carried out, it was observed that there were unauthorized constructions within the reserved areas, contrary to the conditions stated in the Notification specifying the canal reservations published in the Gazette Extraordinary No. 1662/17 dated 14 July 2010 of the Democratic Socialist Republic of Sri Lanka.

(b) According to Section “ C ” of the terms and conditions appearing in the Gazette Extraordinary notification as referred to at (a) above, “ rain water drains should not be connected to any canal in the declared canal reservation without the approval of the Corporation while sewerage pipes, factory waste or any pollutant should not be dumped or disposed into the canal ” Nevertheless, it was observed during the course of field inspections that contrary to those terms and conditions, 07 State and private institutions and about 800 houses of the Red Cross and the Araliya Housing Complexes in the area of authority of the Dehiwala Mount Lavinia Municipal Council and in the area of authority of the Moratuwa Municipal Council were disposing untreated sewage and chemical waste into the canals.

3.2 Uneconomic Transactions

The following observations are made.

(a) Seven per cent annual interest on compensation is payable for lands acquired, in respect of delays between the date of publication of the order in the Gazette and the date of payment of compensation. It was observed that a sum of Rs. 57,361 and Rs.696, 535 had been paid by the Divisional Secretariats, Ratmalana and Moratuwa respectively as interest for the delay in the payments of compensation during the year under review.

(b) A sum of Rs.483,235,236 had been paid up to end of the year 2012 as damages to the contractors for the removal and reassembling of the equipment and idling of the assets

due to failure to handover the lands to the contractors to commence the contract works and the delays in the settlement of bills etc. That represented 7 per cent of total foreign loan.

- (c) Although this Lunawa Project is coming under the purview of the Ministry of Water Supply and Drainage, 4832 meters of road length had been fully damaged by the Waste Water Disposal Project for laying waste water line after completion of road rehabilitation by spending Rs. 40,604,364 by this Lunawa Project.

3.3 Performance

The following observations are made.

- (a) Although 2373 No of block of lands had been acquired by the project only 1438 No of block of lands were eligible for getting compensation as Some of the lands were belonged to Government. However, it was observed that 252 block of Lands were remaining for compensation or divesting as at 31 December 2012.
- (b) Even though the motor vehicles and machineries purchased by the Project had been handed over to the following institutions after the completion of the Project for operation and maintenance work, there was no mechanism had been established by the Ministry or relevant Authorities to ensure that the maintenance works were being performed by the relevant institution to obtain expected outcome.

<u>Institute</u>	<u>Value of Motor Vehicles/ Machinery</u>
	Rs.
Dehiwala, Mount Lavinia Municipal Council	62,924,977
Moratuwa Municipal Council	170,855,945
Sri Lanka Land Reclamation and Development Corporation	<u>216,395,250</u>
Total (exclusive of Value Added Tax)	<u>450,176,172</u>

3.4 Extraneous Items

A double cab motor vehicle valued at Rs.4,813,500 and another two double cab motor vehicles valued at Rs.9,627,000 had been given to the Dehiwala Mount Lavinia Municipal

Council and the Moratuwa Municipal Council respectively in contrary to the objectives of the Project, and those vehicles had been deployed for the use of the Mayors.

3.5 Management Inefficiencies

The following observations are made.

- (a) The main canals with turfed earth banks and gabion walled banks constructed and maintained by the Sri Lanka Land Reclamation and Development Corporation had not been maintained properly. As a result, due to staking of garbage, waste water was not flown smoothly.
- (b) A sum of Rs.2,340,955 had been spent for the construction of the Lake View Children's Park. At the test examination carried out in February 2013 revealed that some equipment in the park was not in usable condition due to lack of maintenance of such equipment.
- (c) At the test examination carried out in Feb 2013 revealed that essential operations and maintenance had not been done properly and certain canals in respective Municipal Council areas had been blocked with Soil and various waste and stagnation of waste water was observed.
- (d) Even though necessary vehicles and other physical resources to the value of Rs.17,531,310 and 80 Perches of land with building situated at 08th lane Lunawa Moratuwa had been retained after the completion of the Project to establish a special unit for coordinate and the operation and Maintain the activities of the project, this Unit had not been established even up to 31 March 2013,
- (e) It was observed that there was a possibility of depositing the silt close to the Lagoon as discharging the waste water to the cannels connected to the Lagoon by the waste water disposal project which is operating around Rathmalana and Moratuwa area. However, no proper action had been taken to rectify this issue.

(f) It was observed that the National Steering Committee had not been held for reviewing the progress of the project after transfer the project to new line ministry of Water Supply and Drainage in 2010.

(g) Although the project had requested to the Ministry to diversified the ownership of some block of lands which were acquired under section 38(a) Land Acquisition Act , in Rathmalana Divisional Secretarial areas, it was outstanding due to lack of approval of the ministry

3.6 Utilization of Funds

The utilization of the funds of the Project as at the end of the year under review is given below.

	Amount agreed to be supplied according to the Loan Agreement		Utilization of Funds as at 31 December 2012	Utilization of funds as a Percentage
	Yen Millions	Rs. Millions	Rs. Millions	%
Japan Bank for International Co-operation Government of Sri Lanka	6,906	7,516	6,888	92
	<u>2,157</u>	<u>2,348</u>	<u>2,471</u>	<u>100%</u>
Total	<u>9,063</u>	<u>9,864</u>	<u>9,359</u>	<u>94%</u>

Eligibility period of the Foreign Portion of the loan was expired in April 2009 and was allowed for reimbursement up to April 2010. 92% of loan amount had been utilized and balance works had been carried out with assistance of the consolidate fund.

3.7 Achievement of Objectives

The following observations are made.

- (a) It was observed that certain local residents who had obtained Rs.5,876,825 for the settlement of out of reservation limits of the canals and drains system had again erected unauthorized constructions and resided within those reservation limits.

- (b) It was observed that, due to lack of adequate human resources, existing staff were not competent enough to operate the machines effectively in the Municipal Councils of Dehiwala, Mount Lavinia and Moratuwa, canals and drains in the particular Municipal Council areas could not be maintained properly.

- (c) Free access of both sides of canals should ensure the regular maintenance of canals. However, the State lands on either side of the developed canal had not been taken over and secured by the projects. As a result, illegal and unauthorized constructions had been erected on both sides of the road. It was further observed that 820 meters length of canal could not be maintained properly due to such illegal and unauthorized constructions.