

Metro Colombo Urban Development Project - 2014

The audit of financial statements of the Metro Colombo Urban Development Project for the year ended 31 December 2014 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

According to the Loan Agreement of the Project, 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 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 is 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 IBRD. The Project commenced its activities on 10 July 2012 and is scheduled to be completed by 30 June 2017.

1.3 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 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

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 judgement, 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (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 equipments 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

2.1 Opinion

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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

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 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Budgetary Provision for the year 2014	Funds utilization			
				during the year 2014		Up to 31 December 2014	
	US\$ million	Rs million	Rs million	US\$ million	Rs million	US\$ million	Rs million
IBRD	213	27,890.22	8,244.00	26.97	3,531.70	46.15	6,042.66
GOSL	108	14,141.52	756.00	5.77	755.96	9.43	1,234.18
Total	<u>321</u>	<u>42,031.74</u>	<u>9,000.00</u>	<u>32.74</u>	<u>4,287.66</u>	<u>55.58</u>	<u>7,276.84</u>

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. such a plan had not been prepaid and implemented.

Due to this reasons actual performance achieved by the Project in financial and physical terms could not be ascertained as at 31 December 2014.

(c) Further, it is revealed that after elapsing of 30 months or 50 per cent of period of the Project, only 17.31 per cent out of total fund available had been utilized by the Project as at 31 December 2014 and overall physical progress as at that date could not be ascertained. Accordingly, use of balance fund of 82.69 per cent during the rest of period of the Project of 30 months is doubtful in audit. The following further observations are also made thereon.

(i) Although activities of all sub-components could have been commenced independently since the commencement of the Project, total allocation of funds for the following sub-components had not been utilized at all.

Reference to the Sub- Components -----	Sub- Component -----	Estimated Cost ----- Rs million
1.3	Capacity Enhancement for Flood and Drainage Management	2,016.48
2.1	Improvement Support to the Kolonnawa Urban Council	316.87
2.2.(a)	Metropolitan Development Strategies Planning, Feasibility Studies for Central Agencies	518.52
2.2.(b)	Institutional Strengthening and Capacity Building for Local Authorities	216.05

(ii) Further, only 6.4 per cent of funds amounting to Rs.13,529 million allocated had only been utilized for the sub – component of Primary and Secondary Cannels and Lakes under Flood Drainage Management which is fully focused for mitigate of massive floods.

3.3 Physical Progress

The following observations are made on the physical progress of the activities carried out under 03 main activities of the Project.

(a) The activities carried out to protect the banks of St.Sebatian South Canal and development of Maccakkum Entrance Park at D.R Wijewardana Mawatha under the component of Flood and Drainage Management had reported the physical progress of 18.5 per cent and 30 per cent only eventhough it was expected to achieve the target of 24 per cent and 50 per cent of physical progress as at 31 December 2014.

- (b) Further, The activities carried out to construct a Beach Park at Crow Island in Mattakkuliya and improvement to 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 27 per cent and 03 per cent only eventhough it was expected to achieve the target of 55 per cent and 09 per cent of physical progress respectively as at 31 December 2014. In addition, the activities of rehabilitation of Gregory Canal and works carried out under Package- 11 of infrastructures development in Sri Jayawardhanapura- Kotte Municipal Council area had shown slow progress of 5 per cent and 03 percent respectively as at 31 December 2014.

3.4 Contract Administration

- (a) The following matters were observed in the spot checks made by the auditors on the works carried out under the Package III of the Model Zone Development at the and Town Hall Square.
- (i) Three items in the Bill of Quantities prepared for concreting of paving areas access road to Zone No. BI of the Viharamahadevi Park was exceed by 129 per cent, 45 per cent and 14 per cent due to weaknesses of preparation of Bill of Quantities in fair manner. Further, the payments had been done for such variation without approvals from relevant parities. It was observed at the audit inspections that the cracks in 15 locations including a crack of length of 10 metre in one location of the paving area.
- (ii) The contract offered initially for fixing of electrical and plumbing for construction of ponds at Zone BI of Viharamahadevi Park at a cost of Rs.2,504,625 was not successfully completed and found that the items installed were defective. However, another contract had been award at a cost of Rs.2,002,378 under variation orders without requesting for rectifying the defects or recover the cost from first contractor. However, it was observed that the electrical and plumbing works was also not carried out successfully and following matters were observed during the physical inspections made by the auditors.
- Wiring works were not properly done and exposed to outside.
 - It was observed that 22 water jets valued at Rs.190,300 and 22 light valued at Rs. 518,700 had been replaced and the removed items were not handed over to stores.
 - The quality of the lighting system fixed could not be determined in audit due to lack of specification thereon. Further, voltage, power, LED quality, surface diameter etc of the lighting system could not be verified in audit.

- (iii) In addition to the above, several deficiencies were observed at the site visit made on works carried out to construct ponds at Zone BI of Viharamahadevi Park. Such instances are summarized as follows
- Four cracks in the pond located at the right side of the access road.
 - Pavements not properly constructed.
 - Water leaks at 03 locations and pot holes at the wall appeared in the pond located at the left side of the access road.
- (iv) The construction works carried out in the Picnic Area of the Zone B4 of the Viharamahadevi Park at a cost of Rs.3,475,000 had been made without a proper plan. Further, goods with inferior quality had been used for the construction without considering the quality assurance. Details are given below.
- It was observed that 06 GI pipes of 50mm had been used for the roof of the picnic huts constructed under Item No XI, X2 and X5 , eventhough 10 GI pipes were required to be used. Further, 100mmx50x3 iron bars had been used eventhough 100mmx50x6 iron bars required to be used. Timber used for the tables and benches were not up to the standard made in the specifications and therefore, the strength and the durability was not ensured. Further, paints had not been applied on the timber bars.
 - It was observed that 96 GI pipes of 50mm had been used for the roof of 06 the huts constructed under Items No X3 and X4 eventhough 48 GI pipes to be required.
 - Under the Item No X3BI, the size of the benches was required to be 550 mm X550mm. However, the size of the benches was 550mm X 450mm. Therefore, the size of the benches was smaller than specified size.
 - Under the Item No X4B 2, 04 supports for a bench should be fixed. However, only 03 supporters were used.
 - It was observed that the Glue used for the fixing of tables and benches made under X3 and X4 was in inferior quality and as a result, the durability the fixtures is opened for corrosion at the fixing points.
 - An allocation amounting to Rs.2,000,000 had been made as additional works under Item XI for suppling and installing of

a mini train had not been commenced even as at 05 June 2015.
The parts of the mini train had located at the Park.

- (b) The walking paths constructed at the left side of the main access road of the Vihara Maha Devi Park were not constructed up to the standards and Asphalt layer was damaged at several locations.
- (c) The Project had entered in to an agreement with a private company on 25 October 2013 to carry out works under the improvement to public conveniences at a estimated cost of Rs.44,948,514. The following matters were observed.
 - (i) It was observed that 09 Urinal Sensors fixed at the lavatories were out of order.
 - (ii) The cracks of the wall were appeared lavatories at the Sounders Place and some of the cracks were spread up to the roof. The doors of the lavatories could not be closed as the doors were not fixed properly. Further, the sewerage system was not properly done and remained overflowing to the adjoining road and the lavatory reserved for disabled persons.
 - (iii) A sum of Rs.23,650 had been paid for 4.3 metres of wood works of the lavatory at Philip Gunawardhana Mawatha even though the actual quantity of wood works were 1.5 metre. Therefore, a sum of Rs.15,400 had been overpaid.
 - (iv) The lavatories at Philip Gunawardhana Mawatha constructed at a cost of Rs.7,084,244 allowed for the use of University of Colombo had remained idle.
 - (v) Eventhough the Project had awarded a contract for reconstruction of Mutual Tunnal at a cost of Rs.409,971,109 it was observed in audit that the Tunnal was very old and not suitable for reconstruction purposes. Further, the gabion wall was not constructed properly..
- (d) The defects reported in my previous audit report made at the audit inspection carried out for the development of Town Hall Square such as turfing without properly leveling of land and growing weeds etc had not been rectified and the condition of the Town Hall Square was further deteriorating as at 30 April 2015 due to poor ground maintenances.