

## **Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund - 2016**

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The audit of financial statements of the Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund for the year ended 31 December 2016 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 the Section 2.07(b) of Standard Condition of Grant Agreement No.TF 011617 dated 12 September 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

### **1.2 Implementation, Objectives, Funding and Duration of the Trust Fund**

According to the Grant Agreement of the Trust Fund, then Ministry of Defense and Urban Development, presently Ministry of Megapolis and Western Development is the Executing Agency and Urban Development Authority, Sri Lanka Land Reclamation and Development Corporation and Colombo Municipal Council are the Implementing Agencies of the Trust Fund. The objective of the Trust Fund is to enhance the capacity of the Government of Sri Lanka to identify, assess, and reduce the vulnerability of the Sri Lanka's Urban Environment to natural disasters. According the Grant Agreement, the estimated total cost of the Project of US\$ 900,000 equivalent to Rs.118.80 million was agreed to be provided entirely by the International Development Association. The Trust Fund commenced its activities on 12 September 2012 and scheduled to be completed by 30 July 2014. The Period of the operations of the Trust Fund had been extended subsequently up to 31 January 2017. The financial results of the Trust Fund had been amalgamated and presented with the financial statements of the Metro Colombo Urban Development Project up to 31 December 2014 and action had been taken to present separate financial statements for the Trust Fund for the year ended 31 December 2015 onwards.

### **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 auditors judgment, 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 Trust Fund'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 Trust Fund'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 the Trust Fund's management and the reliability of books, records, etc. relating to the operations of the Trust Fund.
- (b) Whether the expenditure shown in the financial statements of the Trust Fund had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Trust Fund.
- (c) Whether the adequate accounting records were maintained on a continuing basis to show the expenditure of the Trust Fund from the funds of the Government of Sri Lanka and the Donor Agency, the Progress of the Trust Fund in financial and physical terms, the assets and liabilities arising from the operations of the Trust Fund and the identification of the purchases made out of the Grant, etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Trust Fund and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purpose of the Trust Fund.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Trust Fund.
- (h) Whether the financial statements had been prepared on the basis of the Generally Accepted Accounting Principles.
- (i) Whether the 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 Grant Agreement had been complied with.

## **2. Financial Statements**

### **2.1 Opinion**

So far appears from my examination and to the best of information and according to the explanations given to me, I am of the opinion that,

- (a) the Trust Fund had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Trust Fund as at 31 December 2016 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Trust Fund and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) the Statement of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Grant 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 2016 are shown below.

Source	Amount agreed for financing as per the Grant Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review		as at 31 December 2016	
-----	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	0.90	118.80	80.00	0.16	23.01	0.25	35.44

According to the above information, only US\$ 250,827 equivalent to Rs. 35.44 million had been utilized, out of the total allocation of US\$ 900,000 equivalent to Rs. 118.80 million as at 31 December 2016 after lapse of 04 years of operations.

### **3.2 Physical Performance**

The following observations are made.

- (a) It was observed that the key activities of the Trust Fund such as Metro Colombo integrated floor risk assessment, preparation and recommendation of flood risk mitigation strategies, preparation of an action plan for conservation of wetlands, testing of water quality and soil of marshy lands etc, had not been completed, eventhough such activities were scheduled to be completed by end of the year under review.
- (b) In addition, the activities on developing a monitoring and evaluation system and support to the Implementation Agencies thereon had not been commenced, eventhough such activities were expected to be completed by August 2015. As a result, the Trust Fund was not in a position to support to the Implementing Agencies in the areas of project management, procurements, financial communication, public awareness and operations. Therefore, the risks on achievement of the objectives of the Trust Fund on reducing of vulnerabilities of the urban environment to natural disaster cannot be ruled out in audit.

### **3.3 Contract Administration**

The following observations are made.

- (a) The contract on consultancy service for recommending of flood mitigation strategies and preparation of an action plan thereon had been awarded with delays in 18 months as at 31 December 2016, due to improper allocation of procurement procedures. As a result, period to complete the contract had been extended for further 02 years up to 31 January 2017.
- (b) The Project Management Unit had invited bids from international consultancy firms to prepare a Master Plan for wetlands and carry out an assessment on the water quality in the inland waterways and lakes within Metro Colombo Region. Contrary to the criteria prepared by the Project Management Unit for the selection of Consultants, the respective contract had been awarded to the second qualified firm instead of being selected the first qualified firm. The reasons thereon had not been explained for audit.