The Secretary 
Ministry of Megapolis and Western Development


The audit of financial statements of the Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund for the period ended 31 January 2017 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, the 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 the 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 for the activities to be implemented by the Trust Fund amounted to US$ 900,000 equivalent to Rs.118.80 million and entire cost on implementation of the activities of the Trust Fund was agreed to be provided by the International Development Association. The Trust Fund commenced its activities on 12 September 2012 and scheduled to be completed by July 2014. The period of the operations of the Trust Fund had been
extended subsequently up to 31 January 2017 due to delays in initiation of the activities of the Fund. 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 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 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 January 2017 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 the 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 period ended 31 January 2017 and the financial statements give a true and fair view of the state of affairs of the Trust Fund as at 31 January 2017 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 January 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,

(d) the Statement of Expenditure 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

(e) the financial covenants laid down in the Grant Agreement had been complied with.