

Anuradapura Integrated Urban Development Project - 2017

The audit of financial statements of the Anuradapura Integrated Urban Development Project for the year ended 31 December 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 Section 3.4.3 of the Credit Facility Agreement No. CLK-100901 R of 01 December 2016 and amended Section of 3.4.4 of the Credit Facility Agreement of 31 August 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the French Agency for Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Facility Agreement of the Project, Ministry of Megapolis and Western Development is the Executing and Implementing of the Project. The objective of the Project is to promote a balanced mode of co-development between the sacred and modern part of the City of Anuradapura. As per the Credit Facility Agreement, the initial estimated total cost of the Project amounted to Euro 62.40 million equivalent to Rs.9,779.95 million and out of that Euro 52 million equivalent to Rs.8,150 million was agreed to be provided by the French Agency for Development. The Project commenced its activities on 01 December 2016 and scheduled to be completed by 31 December 2021.

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 Sri Lanka Accounting Standards 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 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 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 identifications of the purchases made out of the Credit etc.
- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Credit Facility Agreement.
- (e) Whether the funds, materials and equipment supplied under the Credit had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether the financial covenants laid down in the Credit Facility 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards, and
- (b) the funds provided had been utilized for the purpose for which they were provided.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

The balance amounting to Rs.359,234 payable as at 31 December 2017 had not been brought to the financial statements.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Credit Facility Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year	up to 31 December 2017		
	Euro million	Rs. million	Rs. million	Euro million	Rs. million	Euro million	Rs. million
AFD	52.00	8,149.96	275.00	Nil	Nil	Nil	Nil
GOSL	10.40	1,629.99	39.00	0.33	52.01	0.44	69.56
Total	<u>62.40</u>	<u>9,779.95</u>	<u>314.00</u>	<u>0.33</u>	<u>52.01</u>	<u>0.44</u>	<u>69.56</u>

The following observations are made.

- (a) According to the schedule 4 section III of the Credit Facility Agreement, the first reimbursement application required to be furnished within 08 months from the date of Credit Facility Agreement sign. However, The Project had not taken action to open a Special (EURO) Account even at the end of the year under review and as a result, a sum of Euro 443,812 equivalent to Rs.69.56 million spent during the year under review could not be reimbursed.
- (b) A comprehensive Action Plan covering the entire period of the Project with the financial and physical targets and the Budget for the year under review had not been prepared by the Project, as per the Schedule-03 of the Credit Facility Agreement.

3.2 Physical Progress

The Project had planned to implement the its activities under 03 Components such as improvements of urban mobility, upgrading of public space enhancement and capacity building etc,. The contract on detailed designing of the improvements of the City of Anuradhapura had been awarded only 29 August 2017 and expected to be completed the works thereon on 24 April 2019.

3.3 Contract Administration

A procurement plan had not been prepared by the Project for the year under review, due to delays in preparation of detailed designs on civil works to be carried out the Project. However, the quotations had been called by the Project under the shopping method to procure office equipment at a cost of Rs.5.97 million. The fairness of the procedure adopted thereon could not be determined in audit, due to lack of records of the addresses of the bidders to be maintained according to the paragraph 3.4 (f) of the Government Procurement Guidelines and the bid opening documents not maintained according to the specified format.

3.4 Human Resource Management

The following observations are made.

- (a) The approved cadre of the Project consisted with 35 posts and out of that only 10 posts had been filled as at 31 December 2017. The key posts of the Project such as Project Director, Additional Project Director, Deputy Project Director, 03 Specialists and 07 Assistant Directors had remained vacant over a year and thus it influenced significantly to the smooth operations of the activities of the Project.
- (b) It was observed that 02 persons had been appointed as Assistant Project Directors who were not possessed the required qualifications and experiences for procurement and urban planning and determined the remuneration in terms of the paragraph 2.2.9 of the Circular No.1/2016 of 24 March 2016 of the Department of Management Services.