

Anuradhapura Integrated Urban Development Project - 2019

The audit of financial statements of the Anuradhapura Integrated Urban Development Project (AIUDP) for the year ended 31 December 2019 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 dated 01 December 2016 and amended section of 3.4.4 of the Credit Facility Agreement dated 31 August 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the French Agency for Development. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Facility Agreement of the Project the Ministry of Urban Development and Housing is the Executing Agency and Anuradhapura Integrated Urban Development Project (AIUDP) is the Implementing Agency of the Project. The objective of the Project is to promote a balanced mode of co – development between the sacred and modern part of Anuradhapura City, with the objective of preserving its cultural and natural heritage, key to the site’s attractiveness. As per the Credit Agreement, the estimated total cost of the Project was Euro 62.4 million equivalent to Rs 9,779.95 million and out of that Euro 52.00 million equivalent to Rs 8,149.96 million was agreed to be financed by the French Agency for Development. The Project had commenced its activities on 01 December 2016 and scheduled to be completed by 31 December 2021.

1.3 Opinion

In my opinion, except for the effects of the matters described in paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project’s financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiency

Accounting Deficiency -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
The accrual expenses of Rs.3.99 million for the year under review of the Project had not been brought to the Ledger Account.	Correct Ledger balances for the year had not been presented and accrual expenditure understated.	The project has been maintaining the ledger on the cash basis.	According to the Sri Lanka Accounting standard accrual basis should be followed for the Preparation of financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The Urban infrastructure development activities of the Participatory City Region of Anuradhapura are scheduled to be implemented by the Project and the following observation are made thereon.

Component	Activity	Audit Issue	Impact	Reason for Delays	Response of the Management	Auditor's Recommendation
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(a) Identification of Sustainable Urban Infrastructure in Anuradhapura City.	Consultancy service of Details Design Study	Even though 3 years was lapsed after the commencement of the Project, the Project had failed to prepare detailed activities to be implemented using the allocated fund of Rs.7,460.35 million (Euro 47.6 million), due to delay in submission of Detail Design Study of the Project and fail to review the consultancy report in time as lack of adequate expertise knowledge of the Project staff to review the consultancy reports.	Completion time of the contract had to be extended and as a result it will affected to the overall time schedule of the project.	Failure to review consultant reports	The review process got delayed only for the two master plans & two feasibility reports due to expertise gap.	Need to be recruit Key experts
(b) Identification of Sustainable Urban Infrastructure in Anuradhapura City.	Consultancy service of Details Design Study	Eventhough the consultancy firm had submitted the report on 03 January 2020 after delaying 15 months, the Project had not accepted the report, due to the deficiencies observed in the report. As a result, completion of the activities of the Project on due dates will be further delayed. The reason submitted by the	Completion time of the contract had to be extended and as a result it will affected to the overall time schedule of the	Poor performance of the consultant and lack of supervision	Provision of the addendum will be applicable when charging the delay damages.	Guidelines of the consultancy agreement should be followed to recover the Liquidated Damages.

Consultant cannot be accepted as valid project. reasons for delays, in terms of section 46.2 of the consultancy agreement. In this regard the officers of the Project had not been taken action to recover the liquidated damages for the delays.

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>In order to mitigate the consequences created by delays of commencing of Project activities, due to delay in submission of detailed consultancy reports in time, it had been scheduled to be commenced identified 05 quick win sub projects during the year under review at a cost of Rs. 748.5 million. However, action had not been taken to award those contracts even after being finalized the tender documents.</p>	<p>Due to delay in Constructions, Construction Costs could be increased and duration of the Project has to be extended.</p>	<p>Quick win packages have been delayed mainly due to the issues of stakeholders, beyond control of the project.</p>	<p>Corrective actions should be taken to expedite the construction works.</p>

3.3 Idle and Underutilized Resource

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>According to the information received, only a sum of Euro 1.40 million equivalent to Rs.225.10 million representing 3 per cent of the total allocation of Euro 52 million equivalent to Rs. 8,149.96 million made by the Lending Agency had been utilized as at 31 December 2019, after lapse of 3 years from the commencement of activities of the Project. It was further observed that a sum of Euro 1.72 million equivalent to Rs.204.25 million had been obtained by the Project in the preceding year and no advance had been obtained during the year under review. Further, the advance amounting to Euro 0.58 million equivalent to Rs. 94.37 million obtained in the preceding year had been remained in the bank account without being utilized.</p>	<p>The activities of the Project could not be completed during the scheduled project period, as a result of underutilization of funds.</p>	<p>Agreed, low utilization is occurred mainly due to the delay in consultancy for Detail design of the project.</p>	<p>Sound and efficient project management system should be implemented in order to utilize the funds effective and economical manner.</p>

3.4 Issue Related to Human Resources Management

The approved cadre of the Project as at 31 December 2019 consisted with 28 post and out of that 10 post including a Urban Heritage Specialist, 3 Assistant Project Director and 4 Senior Management had remained vacant up to end of the year under review without being taken action to fill the vacancies.

3.5 Matters in Contentious Nature

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
A house had been rented for the office of the project based on the similar quotation called to obtain a house on rental basis to use as the resident of the Anuradapura sub – Project's Additional Project Director. A sum of Rs.100,000 had been paid as an advance on 14 November 2018 to rent out the office premises. However, actions had not been taken to rented out the said house for office premises and even recover the advance paid up to May 2020	This practice has violated the Government regulation and such action lead to misuse of the public funds.	Advanced payment for renting of a house – despised several reminders made by the project the building owner has finally refused to returned the advance payment of Rs.100,000/-. This has now been referred to the ministry for advices to take for the legal action.	Corrective action should be taken to recover the advance immediately.