

## **Anuradhapura Integrated Urban Development Project (AIUDP) - 2023**

---

The audit of financial statements of the Anuradhapura Integrated Urban Development Project (AIUDP) for the year ended 31 December 2023 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 Provisions in the Article 3.4.3 of the Credit Facility Agreement No. CLK – 100901 R dated 01 December 2016 (as amended on dated 31 August 2017, 14 May 2018 and 14 March 2021) 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 reported to Parliament appear in this report

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Credit Facility Agreement, the Ministry of Urban Development and Housing is the Executing agency of the project and it is implemented under the Strategic Cities Development Programme (SCDP) under the Ministry of Urban Development and Housing. 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 national heritage, key to the site's attractiveness. As per the Credit Facility Agreement, the estimated total cost of the Project was Euro 62.4 million equivalent to Rs 10,025.18 million and out of that Euro 52 million equivalents to Rs 8,354.32 million was agreed to be financed by the French Agency for Development. The balance amount of Rs 1,670.86 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 December 2016 and scheduled to be completed by 31 December 2021. However, as per the amended agreement the date of the completion of the activities of the Project had been extended up to 30 September 2023.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified 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.

## 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 scepticism 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 Deficiencies

<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Rs. 45.9 million should be refunded from the Irrigation department to the project, due to the cancellation of the construction of Northern Multi-modal Transport center. However, it had not been disclosed in the financial statements.	45.9	In the future we will take action to disclose in the financial Statement.	Action should be taken to disclose receivable balances in the financial Statements.

## 2.2 Non Compliance with Laws, Rules and Regulations

	<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Paragraph (iii) of the National Budget Circular No.03/2022 dated 26 April 2022.	The Ministry had stopped this project contrary to the instructions given by the paragraph (iii) of the National Budget Circular No.03/2022 as "In suspending the partially completed infrastructure development, the necessary parts should be completed so as to minimize the inconvenience to the people using the infrastructure and ensure their long-term existence."	Actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present.	Action should be taken to expedite the remaining works.
(b)	Paragraph 8.13.4 of the procurement guideline	As per 8.13.4 of the procurement guidelines the project Director could approve net variance up to a 10 percent subject to the recommendations of the technical evaluation committee. However the project director had approved variance of 28.4 percent contrary the guideline.	At present National Operation Room has approved to complete the entire project undertaken initially. With this approval the project has already re-valued the existing project with Ministry Procurement Committee approval and actions are being taken now to rectify the variations and other technical issues.	Procurement guidelines should be followed.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Audit Issue	Management Response	Auditor's Recommendations
(a) According to the loan facility agreement, the project should have been completed the procurement process of 12 packages valued at Rs. 6,562.68 million by the end of 2021, however only 07 packages valued at Rs. 5,025 million had not been completed the procurement process. Further, the credit facility had been extended up to 30 September 2023 and it was further observed that the works expected to be completed within the project period, could not be fully completed by the end of the project period.	Balance activities to be determine after the debt restructuring process by the government.	Action should be taken to complete the work within the project period.
(b) Only 05 packages valued at Rs.2,123.19 million had been commenced out of the 12 packages which are expected to be carried out under the project and only 2 packages had been completed on 31 December 2022. The packages No. 3 and 4 were completed after delay of 04 to 07 months in the year 2023 and were mainly affected poor construction supervision and weaknesses in planning and design.	Economic crisis, non-availability of material and weaknesses with the initial planning and design consultancy are the main reason for the delay.	Corrective action should be taken to expedite the work.
(c) Anuradhapura Southern Multimodal Transport Center had been commenced on 24 February 2022 and expected to be completed within 21 months on 25 November 2023. Even though Ministry of Urban Development and Housing was stopped the work of the project. (except for the soil conservation work and the drainage system) until receiving the decision of the French Agency (AFD) and the Treasury, the project had spent Rs.243.15 million as at 31 December 2023.	Actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present.	Action should be taken to complete the works according to the work plan.

### 3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The number of project staff has been reduced by 31 December 2022 and only a part-time project director and a full-time quantity surveyor are directly involved with the project, more over it is doubtful in the audit the ability to complete the remaining work of the project within the project period. However, without completing the project an effective manner, a sum of Rs.309 million had been paid for the project management unit since the year 2016.	Due to the uncertain situation prevailed during 2022 and 2023 the project performance had been very poor. However, with the approval of National Operation Room in late 2023 the project confident the package 06 Southern Multimodal Transport Center could be completed as planned.	Action should be taken to recruit the required staff for project smooth operation.
(b) Although the renovation of the Surapura Open Air Theatre and the Sri Lanka Broadcasting Corporation's open-air theatre were completed, the theatres were in unusable condition due to the key equipment and goods (lighting, seating) had not been supplied up to the end of the year under review. Therefore, it was observed in the audit that the expenditure of Rs.331.73 million which had been incurred for the construction could be a fruitless expenditure in future.	We have already handover Surapura Open Air Theatre, SLBC Open Air Theatre to respective institution and at present they have taken a control of it doing necessary work to improve the utilization process.	Instruction should be given to complete the balance works without further delay.
(c) A sewage treatment plant had been proposed to construct at Rs. 30 million with a capacity of 35 cubic meters per day and it had been revised and constructed with a capacity of 75 cubic meters per day, as per the request made by the Mayor of the Anuradhapura Municipal Council letter dated 10 February 2022. Further it was observed that variation had been occurred due to non-conducting a proper feasibility study and not considering the request made by the mayor even before starting the work of the project. Therefore, total contract price had been increased up to Rs. 98.45 million and the Project	Actions are being taken now to rectify the variations and other technical issues. The contractors' claims are being evaluated at present.	Action should be taken to complete the works according to the work plan.

Director had approved the variation order.

Further, the Project Director had approved a variation order of Rs. 138 million for land preparation work, renovation of the existing bus stand, soil protection and environmental works.

- |     |  |   |                                  |
|-----|--|---|----------------------------------|
| (d) | A variation order valued at Rs.236.85 million had been included to the project which were not identified at the beginning of the project in addition to the decision of the Empowered Committee for Re-Strategizing and Acceleration of Large-Scale Development Projects (RAMP). | The project has already re-valued the existing project with Ministry Procurement Committee approval and actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present. | Proper approval should be taken. |
|-----|--|---|----------------------------------|

### 3.3 Idle/ Unutilized/ Underutilized Resources

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) An amount of Rs.45.9 million had been paid to the Irrigation Department as compensation for the relocation of the Irrigation Quarters building under the construction of Northern Multimodal Transport Centre. However, after cancelled this package that amount should be recoverable from the Irrigation Department but it had not been recovered up to end of the year under review.	We will take action to recover the amount, which was paid to the irrigation department in future.	Action should be taken to recover the compensation.
(b) National Operations Room (NOR) had decided to allocate Rs.2,070 million equivalents to 06 million Euros as a provision for the year 2024 to complete the balance work of Southern Multimodal Transport Centre however an agreement had not been made with the donor in this regard, further it was observed that this expenditure would be burden to the Government of Sri Lanka in future. Accordingly, the project had been expended Rs.129 million for the construction of the	The government has understanding with the donor to obtain Euro 6mn to meet allocated Rs. 2,070mn after the debt restructuring process. At present package 06 achieve 38% progress due to the financial constraint and other obstruction face during the past.	Action should be taken to get consent from the donor.

construction from GOSL funds and achieved 38 percent low physical progress as at 30 April 2024.

- |     |   |  |   |
|-----|---|--|---|
| (c) | According to the loan agreement made in the year 2016, the loan agency had agreed to fund Rs.8,354.32 million and the treasury allocation was Rs. 1,670.86 million and the loan period had been ended on 30 September 2023 only Rs.2,450.81 million or 24.45 percent had been utilized as at 31 December 2023. As a result, expected out come from 12 packages of the Anuradhapura Pooja City Development Project could not be achieved.                                  | Project plan activities could not be carry-out according the proper planning manner due to the reason of COVID 19 pandemic global economic crisis, local economic issues and all inflations.   | Action should be taken to utilize loan fund effectively.                    |
| (d) | The contractor had claimed Rs.115 million as a suspension claim for idleness and incidental costs of workers and machinery and a sum of Rs.69.93 million for the time extension so that cost was a burden to the project cost due to the suspension of the project.   | Actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present.  | Action should be taken to avoid the additional cost.                        |
| (e) | The value of the contract had been increased by Rs. 1,176 million to Rs. 1,795 million by 53 percent due to the suspense of the project and it will directly burden to the GOSL fund.   | Actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present.  | Action should be taken to avoid the additional cost                         |
| (f) | The Railway Plaza Development Project under Package 01 had been completed at a value of Rs.98 million and handed over to the Railway Department in the year 2022. However, the cafeteria that was newly constructed had been remained vacant up to 31 December 2023 due to lack of proper maintenance. Therefore, it was observed that the Railway Plaza building could be idled without made a long-run operation and maintenance agreement with the Railway Department. | We will make arrangements to inform to CGR to upgrade the maintenance but the project is properly hand over to Sri Lanka Railway. The Sri Lanka Railway is the responsible for to maintenance. | Action should be taken to made long term agreement with Railway Department. |
| (g) | The Anuradhapura Integrated Urban Development Project, which was started in 2016, and expected to completed on 30 September 2023, however only Rs. 2,440  | Project plan activities could not be carry out according the proper planning manner due to the reason of COVID 19  | Action should be taken to get the designs without delay.                    |

million (24 percent) of the agreed loan amount of Rs. 10,025 million had been utilized up to 31 December 2023. The delay of 02 ½ years by the consulting firm to submit the detailed design had adversely affected to that situation.

pandemic global economic crisis, local economic issues and all inflations.

### 3.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The project had not prepared a specific asset management plan for long-term sustainability of the project assets which were handed over to the assets owners.	On receipt of the assets, and advised them to prepare the asset management plan for the long-term stabilities.	Action should be taken to complete the asset management plan.
(b) Key performance indicators had not been established to measure output and outcome of the project operations.	Key performance indicators had not been established.	Action should be taken to establish key performance indicators.