

Strategic Cities Development Project - 2014

The audit of financial statements of the Strategic Cities Development Project for the first accounting period from 05 May 2014 to 31 December 2014 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 II (B) (3) of the Financing Agreement No.5428-LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry Urban Development Water Supply and Drainage is the Executing Agency and the Implementing Agency of the Project. The objective of the Project is to improve selected urban services and public urban spaces in the Participatory City Regions of Sri Lanka. Therefore, Kandy City and Galle City had been selected as the Participatory City Regions to be developed under the Project. As per the Financing Agreement, the estimated total cost of the Project was SDR 95,000,000 (US\$ 192.08 million) equivalent to Rs. 25,162.48 million and out of that US\$ 147 million equivalent to Rs.19,257 million was agreed to be provided by the International Development Association. The Project commenced its activities on 05 May 2014 and scheduled to be completed by 31 December 2019.

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 Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipment supplied under the Loan 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 Loan 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Depreciation for the property, plant and equipment procured by the Project during the year under review had not been provided.

2.2.2 Lack of Documentary Evidence for Audit

A Register of Fixed Assets had not been maintained in proper manner to record the property plant and equipment procured by the Project during the year under review. Further, action had not been taken to carry out Annual Board of Survey as required by the Financial Regulation No. 756 to determine the physical existence of the assets.

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 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
IDA	147.00	19,257.00	48.00	0.15	18.58
GOSL	45.08	5,905.48	42.00	-	41.91
	<u>192.08</u>	<u>25,162.48</u>	<u>90.00</u>	<u>0.15</u>	<u>60.49</u>

3.2 **Physical Progress**

The consultancy services for feasibility studies and preparation of detailed assessments for the improvement of Kandy and Galle Municipal Councils area commenced during the year under review had been substantially completed at the end of the year under review. The infrastructural development activities to be carried out under the Project had not been commenced as at 31 December 2014.

3.3 **Human Resources Management**

The Scheme of Recruitments for the Project had been approved by the Department of Management Services on 29 January 2014. However, the two posts of Deputy Project Directors had remained vacant up to 31 May 2015. According to the Project Director, such vacancies will be filled in 2015.