

## **Anuradapura Integrated Urban Development Project - 2016**

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The audit of financial statements of the Anuradapura Integrated Urban Development Project for the first 04 months period ended 31 December 2016 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, and
- (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 period ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Accounting Standards, and
- (b) the funds provided had been utilized for the purpose for which they were provided.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the period and utilization of funds during the period up to 31 December 2016 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 up to 31 December 2016	
	Euro million	Rs. million	Rs. million	Euro million	Rs. million
AFD	52.00	8,149.96	Nil	Nil	Nil
GOSL	10.40	1,629.99	-	0.11	17.76
<b>Total</b>	<b><u>62.40</u></b>	<b><u>9,779.95</u></b>	<b>=</b>	<b><u>0.11</u></b>	<b><u>17.76</u></b>

#### 3.2 Physical Progress

The following observations are made.

- (a) The Project had planned to implement its activities under 03 Components such as improvements of urban mobility, upgrading of public space enhancement and improving urban drainage to reduce flood risks. However, as required by the schedule-3 of the Credit Facility Agreement, overall Action Plan and a Budget had not been prepared indicating financial and physical targets to be achieved.
- (b) According to the schedule-4 section III of the Credit Facility Agreement, the first reimbursement application should be furnished within 08 months from the date of Credit Facility Agreement. However, the Project had not taken action to open a Special (EURO) Account even at the end of the year under review.

#### 3.3 Human Resource Management

The approved cadre of the Project consisted with 34 posts and out of that only 08 posts had been filled as at 31 December 2016. The key posts of the Project such as Project Director, Deputy Project Director and 07 Assistant Project Directors had remained vacant at the end of the period and thus it influenced significantly to the smooth operations of the activities of the Project.