

## **Anuradhapura Integrated Urban Development - 2020**

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The audit of financial statements of the Anuradhapura Integrated Urban Development Project (AIUDP) for the year ended 31 December 2020 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. This report consists of the matters observed during the course of audit and submitted for the consideration of the Executing and Implementing Agencies of the Project.

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

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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**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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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

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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. Physical Performance

### 2.1 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	Reason for Delays	Response of the Management	Auditor's Recommendation
(a) Identification of Sustainable Urban Infrastructure in Anuradhapur a City.	Consultancy service of Details Design Study	(I) On order to obtain the Detailed design study consultancy services, for Rs 212.66 million (Euro 1.18 million) the project had entered in to an agreement with a consultancy firm, SCE, Grouphit - Green Tech Consultants joint venture, on 29 August 2017. According to the agreement, the firm should submit the consultancy report on 12 October of the year 2018. However, the report had not been submitted even up to end of the year under review and the project had extended the contract period up to 31 March 2020. Nevertheless, some deliverables had not been completed up to May 2021 and Extention of Time had not been granted form April 2020. In such a	Poor performance of the consultant and lack of supervision	Another procurement committee has appointed in May 2021 by the Secretary to the line ministry. Evaluation of EOT is in progress, once the evaluation is completing the evaluation, the Liquidity damages may be considered.	Guidelines of the consultancy agreement should be followed to recover the Liquidated Damages.

background the payment made amounting to Rs.42.11 million to the consultancy company during the year under review was a problematic issue in audit.

Although the project had paid a sum of Rs.100.32 million to the consultancy firm, up to end of the year under review, any action had not been taken to recover the liquidate damages of Rs.50.24 for non submission of reports.

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| (II)  | It had observed in audit that 6 additional experts and 2 key experts had not fulfilled the required qualifications stipulated in service agreement for consulting service for Detail Design. | Poor performance of the consultant and lack of supervision | Agreed. | Sound and efficient consultancy supervision system should be implemented in order or achieve project objectives  |
| (III) | Due to delaying over 6 months to submit 11 review reports relating to the Detailed Engineering Designs – Urban Sector in Grading Component – (Architecture and Structural) it was            | Poor performance of the consultant and lack of supervision | Agreed  | Sound and efficient contract management system should be implemented in order to achieve the project objectives through completing project activities. |

unable to utilize Rs 75 million that allocated for the projects during the year under review. Not recruiting of project expert management support staff up to May 2020 and due to the Expertise Gap of the project staff, were mainly attributed for the delays of the report review.

## 2.2 Contract Administration

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
(a) The contract for development of the public square at the Anuradhapura railway station and development of Anuradhapura "Singha Kanuwa" round about at an estimated cost of Rs.122.62 million, scheduled to be completed by July 2021. However, the total expenditure incurred up to end of the year under review amounted to Rs.17.99 million and the physical progress as at that date was as low as 4 per cent. mismatching of BOQ and the Drawings were the main reasons for delay. The Road Development Authority (RDA) had informed to the project to change the prior designs prepared to "Singha Kanuwa" area due to lack of proper coordination between the project and RDA.	Agreed on the comment, this design change has affected to the project progress.	Sound and efficient contract management system should be implemented in order to achieve the Project objectives through completing Project activities.
(b) Four Sub – Project the estimated cost of Rs.336.25 million had been awarded and those sub-projects scheduled to be completed in July of the year 2021. However, the progress of the 3 sub projects was at as low as 10 to 30 per cent. The difference shown between the Drawing and the BOQ were the main reasons for the delays. Thus, reviewing of base documents prepared by the consultants and granting the approvals by the project for the consultant's report were problematic issue in audit. As a result of those differences, the contractors had produced variances report to the project by requesting additional costs.	Agreed with the comment	The Bills of Quantities should be prepared after evaluating the drawings and the detailed plans.

**2.3 Idle and Underutilized Resources**

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor’s Recommendation</b> -----
<p>According to the information received, only a sum of Euro 1.84 million equivalent to Rs.308.84 million representing 3 per cent of the total allocation of Euro 52 million equivalent to Rs. 8,354.32 million made by the Lending Agency had been utilized as at 31 December 2020, after lapse of 4 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 year 2018 and non of an advance had been obtained during the year under review. Further, the advance amounting to Euro 0.17 million equivalent to Rs. 26.25 million obtained in the year 2018 had been remained in the bank account without being utilized.</p>	<p>Agreed on the comment.</p>	<p>Sound and efficient project management system should be implemented in order to utilize the funds effective and economical manner.</p>

**2.4 Matters in Contentious Nature**

<b>Audit Issue</b> -----	<b>Response of the Management</b> -----	<b>Auditor’s Recommendation</b> -----
<p>(a) A house had been rented after being called quotation to use as resident of the Anuradhapura 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 house. However, actions had not been taken to rented out the said house and the paid advance had not recovered up to</p>	<p>The requested has been made to house owner to return the advance payment, but he has not done so.</p>	<p>Action should be taken to recover the advance immediately.</p>

April 2021. Further to rent a house under monthly rent of Rs.70,000 for the Additional Project Director, an agreement had been signed and an advance of Rs. 210,000 had been paid. After that a sum of Rs.520,333 had been paid as rental for the period from 08 October 2018 to 13 June 2019. However, as pointed out by the Department of Management services, as per the circular No. 1/2016, the house had been handed over to the owner on 13 May 2020. Nevertheless, the advance receivable amounting to Rs.109,670 had not been recovered up to April 2021.

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| (b) | Even though the project had been commenced 4 years ago, only a sum of Rs.96 million had been incurred for the development activities that come under the Project. However, the project management cost incurred over the last 4 years amounted to Rs 183.98 million or over 50 per cent of the development cost. Thus, productivity and effectiveness of the project is problematic issue in audit.                | Agreed<br>However, it a detail design consultancy has been delayed due to poor performance of selected consultant  | The Project funds should be used for the fulfillment of the project objectives as per the financial plans. |
| (c) | The proposal furnished by the consultancy firm to construct the Pola building and multi Storied car park at an estimated cost of Rs. 877 million had been abounded due to the possible inconveniences to the General Public at the construction stage and payable issues of compensation. Hence, it was observed in audit that the project had identified the activities without being conducted proper evaluation | Last moment, the AFD refused to fund for Pola and Multi-Storied carparks indicating that as the Pola development is market infrastructure development, which was not within the loan scope | Proper evaluation should be made considering all factors effect to project activities before the planning. |



**2.5 Issue Related to Human Resources Management**

<b>Cadre Position</b>		<b>No of posts</b>		<b>No of</b>	<b>Response of the</b>	<b>Recommendation</b>
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		-----	<b>31 December 2020</b>	-----	-----	-----
(a)	Urban heritage specialist	01	-	01	Comment had not been given	Vacancies should be filled according to the requirement
(b)	Assistant Project Director	03	-	03		
(c)	Additional Project Director	01	-	01		
(d)	Others	22	18	06		

**2.6 Budgetary Control**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's recommendations</b>
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Compared to the actual expenditure with the estimated costs, about 50 per cent variances were observed. Thus, it was observed that the budget had not been used as an effective management tool.	The savings of the budgeted allocation had been occurred due to delay in the consultancy	Project activities should be effectively plan and design in order to carrying out activities of the project efficient manner.