

Anuradhapura Integrated Urban Development Project - 2021

The audit of financial statements of the Anuradhapura Integrated Urban Development Project (AIUDP) for the year ended 31 December 2021 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 consider should be reported to the 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 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. However, as per the amended agreement, the date of completion of the activities of the Project had been extended up to 30 September 2023.

1.3 Opinion

In my opinion, except for the effects of the matters described in the Table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 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.

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. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Management Response	Auditor's Recommendations
(a)	According to the record of the External Resources Department, value of a direct disbursement made to the General Treasury had been overstated by 4.94 million and balance of the Loan had been overstated by Rs.2.58 million in the financial statement.	2.58	The project prepare accounts with AFD, Doller accounts and project current accounts data and not compare with ERD.	Corrected Value should be shown in the financial statement.

(b)	Value of the direct disbursements made to two contractors had been understated.	2.35	The project payment voucher made on rupee value and on direct payments subsequent exchange adjustment are not done on our books of accounts.	Corrected Value should be shown in the financial statement.
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2.2 Non – Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Government Procurement Guidelines of 2006 paragraph 7.9.2 and 7.9.11	Engineer's estimate for the development of Anuradhapura Multimodal Transport Centre was Rs. 920.44 million and the amount offered to the constructor was Rs. 1,176.12 million and the contractor's offered amount was 30.2 percent more than the Engineer's Estimate. Rate analysis had not been done with the Engineers Estimate and the respective offered rates of the BOQ items in this contract. The deviation of the rates of the selected contractor was observed in the range of 1-93 percent undervalued and 1- 4483 percent overvalued.	Agreed. As the estimate prepared in 2020 by DDS, MPC requested to revise the estimate. Accordingly, estimate revised and value is Rs. 1,110.51Mn. Then amount varied only 6.2%.	The procurement Guidelines should be followed by the Project.
(b)	Government Procurement Guidelines of 2006 paragraph 5.4.4	The contract period of consultancy work was expired on 31 March 2022. The consultancy deliverables (Detail Designs) have been submitted to the PMU on 31 March 2022. However, the final payments to the consultancy contractor are yet to be made. It is observed that the remaining mobilization advance balance of Rs.18 million had not been recovered or extended mobilization advance bond guarantee period at the date of completion 31 March 2022.	Agreed. As payments finalization are in the final stage will recover full amount from the certifying payment certificate.	The procurement Guidelines should be followed by the Project.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component / Sub Component	Activity	As at 31 December 2021		Delay /Audit Issue	Responses of the Management	Auditor's Recommendations
		Expected physical performance	Performance Achieved			
		Percentage	Percentage			
(a) Sustainable Urban Infrastructure	Urban Infrastructure Development	100%	Nil	According to the loan facility agreement, the project required to be complete the procurement process of 12 packages worth Rs.6,562.68 million by the end of 2021. However, the procurement process of 08 packages worth Rs.5,925.19 million had not been implemented, due to the delay in the detailed engineering plans of the consultancy work. Therefore, the credit facility had to be extended till 30 September 2023.	Agreed.	Sound and efficient contract management system should be implemented in order to achieve the Project objective through completing project activities in scheduled time.
(b) Public Space Upgrading Program				Construction of Railway Plaza and Lion Pillar Roundabout Re-development had been awarded to the contractor for Rs. 122.62 million on 06 July 2020 and scheduled to be completed on 21 July 2021. The Project had extended 03 times up to 14 March	Agreed. Due to the prevailing situation in the country.	Sound and efficient contract management system should be implemented in order to avoid the delays and costs savings.
(i) Construction of Railway Plaza	Civil work	90%	80%			

(ii)	Construction of Comfortable Center	90%	80%	2022. However, the total expenditure incurred up to end of the year under review amounted to Rs.23.79 million and shown slow physical progress 10 per cent as at that date.		
(iii)	Renovation of Alms Hall Building	90%	80%			
(c)	Construction of Lion Pillar in Roundabout	86%	65%	Due to mismatch between bill of quantity and engineering drawings and the plans were prepared without proper coordination with the Road Development Authority, the preliminary plans had to be changed which had led to the delay.	Agreed	Sound and efficient contract management system should be implemented in order to achieve the Project objectives through completing Project activities in scheduled time.
(d)	(i) Construction of Vehicle Park Sri Maha Bodhi East Gate	90%	75%	The contract for Re-development of Sri Maha Bodhi East Gate Car Park and Erection of Interpretation Board was awarded on 10 September 2020 at a total contract sum of Rs. 213.63 million and expected to be completed on 30 November 2021. However, three extensions of time were approved by the project. However, the total expenditure incurred up to end of the year under review amounted	Agreed. Due to the prevailing situation in the country.	Sound and efficient contract management system should be implemented in order to achieve the project objectives through completing Project activities in scheduled time.

to Rs.69.49 million and shown the slow physical progress of 15 percent as at that date.

(e) (i) Erection of Interpretation Name Boards in the Sacred City	89%	65%	Under items 3.1.1 and 3.1.2 of the BOQ for construction of 132 interpretive boards around the parking lot Rs. 9.65 million was allocated and the contract was scheduled to be completed on 25 February 2022. However, a sum of Rs. 369,600 was given to a consultant on 17 February 2021 to write the descriptions of text soft copies for those interpretation boards without being mentioned a due date. However, the construction works had not been completed till 13 October 2022, due to the above reason.	Agreed	The project management should evaluate the progress of the project in order to streamline the project activities according to the procurement plan.
(f) (i) Renovation of Surapura Open Air Theatre	56%	38%	Re-development of Surapura Open Air Theatre, SLBC Open Air Theatre and Landscaping of Dharmapala Mawatha contract was awarded at a contract sum of Rs. 348.60 million on 27 April 2021 and expected to be completed on 26 April 2022. Due to the Covid 19 pandemic, the Project site had	Agreed.	Sound and efficient contract management system should be implemented in order to achieve the project objectives through completing project activities in scheduled time.
(ii) Renovation of SLBC Open Air – Theatre	56%	38%		Due to the prevailing situation in the country.	
(i) Land scaping of	40%	32%			

Dharmapala
Mawatha

been closed 21 days. According to work program, there was a under performances of the construction work. However, no revised work program had been submitted by the contractor. However, the total expenditure incurred up to end of the year under review amounted to Rs. Rs.83.2 million and slow physical progress of 20 percent as at that date.

(g)	(i) Sri Maha Bodhi Gate Vehicle Park	54%	12%	Contract for construction and Re-development of Car Park in the three places had been awarded at a cost of Rs. 262.34 million and expected to be completed on 15 August 2022. According work program, it was observed that the progress of this contract was poor, due to lack of close supervision of the project management unit to complete this project on as per the given work plan.	Agreed. Due to the prevailing situation in the country	Sound and efficient contract management system should be Implemented in order to achieve the project Objectives through completing project activities in time.
	(ii) Mirisawetiya Vehicle Park	40%	14%			
	(iii) Lankaramaya Vehicle Park	37%	10%			

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	<p>The Project had entered into an agreement with SCE, Group hit – Green Tech Consultants Joint venture on 29 August 2017 for Rs.212.66 million (€1.18 million) for procurement of detailed design study consultancy services. According to the agreement, the consultant had to submit the completion consultation report on 12 May 2019. However, the due date has been revised four times. Further, the Project required to submit 18 deliverables and 17 deliverables were not submitted on time under this contract. Therefore, as per clause 46.2 of the agreement, liquidation damages of Rs. 59 million should be recovered from the institute for non-submission of report on time and the amount was not recovered till the date on 31 December 2021.</p>	Agreed	<p>Sound and efficient contract management system should be implemented in order to achieve the project objectives through completing project activities.</p>
(b)	<p>In April 2018, the original consultancy was given an additional consultancy task to submit 04 deliverables as a feasibility study for the waste water management component. Due to this additional work, the value of the contract had increased to EUR 106,080 and Rs. 89.63 million + PS 50M totaling to Rs.139.63 million. Accordingly, the consultant had submitted the final feasibility report for Anuradhapura City's Wastewater Management System to the National Water Supply and Drainage Board on 24 July 2020.</p>	Agreed	<p>Management should ensure the arrangement to completing project objective.</p>
(c)	<p>The bill of quantity worth of Rs. 122 million was not realistically prepared for the construction of Railway Plaza and Lion Pillar Roundabout Redevelopment in Anuradhapura. Therefore, a sum of Rs. 7.5 million had been paid as additional works at the end of May 2022 and that is 6.18 percent of the value of the bill of quantity.</p>	Agreed	<p>Sound and efficient contract management system should be implemented in order to achieve the project objectives through completing project activities in scheduled time.</p>

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| (d) | The ownership of land had not been cleared for the construction of vehicle park - Sri Maha Bodhi East Gate. | Noted will negotiate with Chief Thero and AMC | Government regulation should be followed. |
| (e) | A sum Rs. 24.6 million allocated to remove all laid interlocks for the development of Dharmapala Mawatha and landscaping works. A decision was taken to reuse the good quality paying tiles during the construction work and the prices were adjusted as Rs. 1.7 million. However, no steps were taken to ensure the quality of the interlocks that were removed and reused. | Agreed.
Checking done by PIU and RDA staff. | Such uncertain issues of consultancy service contract should be minimized. |
| (f) | In respect of 04 construction packages awarded by the project, the contractor had been awarded with a significant variation between 10 percent to 7 percent of the value given in the engineering estimate. However, the ratio analysis for those items had not been done and procurement guidelines have not been followed. Accordingly, it was observed that the value of the bill of quantities prepared was not realistic. | Agreed | Procurement Guideline should be followed and review the design with cost estimate. |
| (g) | Construction of Market Building and Multi Storied Car Park contract valued at Rs. 877 million had been stopped, due to busyness of Anuradhapura city and had to pay compensation to the parties who were prejudiced during the construction. Thus, it was observed that the Project had identified activities without proper feasibility study. | Noted. | The project funds should be use for the fulfillment of the project objective.
Remedial action should be taken to mitigate the possible effects occurred from project functions. |