

## **Anuradhapura Integrated Urban Development Project (AIUDP) - 2022**

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The audit of financial statements of the Anuradhapura Integrated Urban Development Project (AIUDP) for the year ended 31 December 2022 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 and Anuradhapura Integrated Urban Development Project (AIUDP) is the Implementing Agency of the Project. The objectives of the Project are 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 2022 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

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

No	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
a)	As per the Section 23(a) of the Sri Lanka Accounting Standards 21, Parity Adjustments relating to the foreign loan of the Project had not been accounted in the financial statements as at 31 December 2022.	702	In preparation of accounts, we have tallied our balances with bank accounts donor and TOD.	Action should be taken to account the parity adjustment

- b) The work done value relating to 03 projects up to 31 December 2022 had not been recorded as accrued basis. As a result of that the value of work done and payables to the contractors had been understated by that amount. 165.36 The above-mentioned amount has not been certified by the engineer by 31st December 2022. Correct value should be shown in the financial statement
- c). Advance payment for material at site as at 31 December 2022 had been accounted as working progress instead of being shown as current assets. As a result working progress account in the financial statement had been overstated by that amount. 10.63 We account material at site in payments the expense account. Since, this will be utilized within short period and account in next IPC. Correct value should be shown in the financial statement

### 3. Physical Performance

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

Component	Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
01	Sustainable Urban Development				
	Package 03	100	85	05 Packages valued at Rs.2,123.19 million had been commenced during the year under review and only 2 packages had been completed by 31 December 2022. However, the delay period relating to uncompleted packages No. 3 and 4 were ranged from 04 to 07 months and it may lead overrun the project cost delay in procurement and poor contract supervision mainly affected to that delay.	poor contract supervision
	Package 04	100	90		
	<b>Response of the Management</b>	The main reason for the delaying sub projects were due to COVID 19 impact and financial crisis face by the country. However, it is expected cost will not over-run the contract value.			
	<b>Auditor's Recommendations</b>	Construction works should be closely monitored in order to complete within the time frame.			

### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
a).	07 packages valued at Rs.5,025 million which was 62 per cent of the loan amount had not been awarded up to 31 December 2022 after spending 07 years. Further, it was observed that the expected benefits from the projects could not be achieved within the project period.	7 packages couldn't be awarded during 2022 due to the financial crisis faced in mid-2022 and as per the advice of AFD not to proceed with balance work.	Corrective actions should be taken to expedite the remaining works.
b).	Although 04 contracts had been completed during the year under review, the certificate of completion of the work regard to the completed projects had not been furnished to audit until the date of this report.	With final payment, the PIU will provide completion report and handing over taking over report.	Completion certificate should be issued after completion of the works.
c).	The contract for development of Southern Multimodal Transport Centre had been awarded on 01 February 2022 for Rs.1,176 million and expected to be completed on 01 September 2023. Even though the project had incurred Rs. 243.15 million as at 31 December 2022, the construction works had been suspended due to the shortage of funds. Further it was observed that the incurred expenses in this connection could be fruitless expenses in future.	Due to the financial crisis faced by the country and donor suspending the loan the project could not be proceeded as plan.	Action should be taken to expedite the remaining works on time.

### 3.3 Funds Utilization

Audit Issue	Response of the Management	Auditor's Recommendation
The project had been commenced in the year 2016 and only Rs. 2,164 million (21 per cent) had been used out of the agreed loan amount of Rs. 10,025 million up to 31 December 2022 after lapsed of 07 years delay in the submission of detailed design may adversely affected to that situation.	Agreed.	Loan amount should be used effectively.

### 3.4 Management Inefficiencies

No	Audit Issue	Response of the Management	Auditor's Recommendation
a).	A sum of Rs. 45 million had been paid to the Department of Irrigation as compensation to relocate the Irrigation quarters building under Package 7 of Northern Multimodal Transport centre. However, it had been decided to cancel this package and action had not been taken to re-claim the paid amount from the Department of Irrigation until 31 May 2023.	This acquired land will be used for future development by AMC and UDA and therefore, this acquisition of land will not go waste.	Action should be taken to settle the compensation amount.
b).	Key performance had not been established to measure the output and outcome of the project operations.	The Results Framework (RF) has not been validated by the AFD for establishing Key Performance Indicators.	“SMART” KPI's should be introduced.
c)	According to the loan facility agreement, the project has to be completed the procurement of 12 packages valued at Rs.6,562.68 million by the end of the year 2021. However, the procurement of 07 packages valued at Rs.5,025 million had not been commenced up to 31 May 2023. Moreover, the credit facility had been extended up to 30 September 2023, further it was observed that the work expected to be completed within the project period could not be fully finished at the project end.	The project could not plan their activities after April 2022 due to the financial crisis face by the country and at present the treasury is evaluating the project to continue activity at reduce level after dead negotiation with the donor.	Action should be taken to complete the works according to the work plan without additional cost to the project.
d)	The cadre of the project staff had been decreased by 31 December 2022 therefore the completion of balance work of the project during the extended project period is in doubt to audit.	Agreed.	Required project staff should be maintained.
e)	The project had not prepared a specific Assets Management Plan for long term sustainability of project assets which were handed over to Assets Owners.	The project does not have specific human resources to prepare a dedicated assets management plan for each sub-project.	Action should be taken to prepare the asset management plan.
f)	Environmental and social monitoring reports along with technical progress report had not been prepared and furnished to the funding agency during the year under review.	It will be submitted to the AFD along with the technical report by the end of June 2023.	Environmental and social monitoring reports should be prepared to smooth functioning of the project.

### 3.5 Fruitless Expenditure

No	Audit Issue	Response of the Management	Auditor's Recommendation
a)	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 May 2023 due to lack of proper maintenance. Therefore, it was observed that the building of railway plaza could be idled without made a long run operation and maintenance agreement with Railway Department.	The project decided to involve Urban Development Authority to find a solution and ensure its sustainability.	Action should be taken to make long-term agreement with Railway Department.
b)	Even though 90 per cent of the renovation of Surapura Open Air Theatre and renovation of SLBC open air theatre had been completed, the theatres were in un-usable condition due to the key equipment and goods (lightning, seating) had not been supplied up to 31 May 2023. Therefore, the expenditure of Rs.285.76 million had incurred for the construction could be a fruitless expenditure in future.	As funding was temporarily suspended by AFD, the necessary funds were not available to complete the final works.	Instruction should be given to provide the key equipment without further delay.