

Anuradhapura Integrated Urban Development Project - 2018

The audit of financial statements of the Anuradhapura Integrated Urban Development Project for the year ended 31 December 2018 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 the Section 3.4.3 of the Credit Facility Agreement No. CLK – 100901 R dated 01 December 2016 and the Section of 3.4.4 of the amended 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 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 of the Project, the Ministry of Mega polis and Western Development is the Executing Agency and Urban Development Authority is the Implementing Agency of the Project. The objective of the Project is to promote a balanced mode of co – development of sacred and modern city of Anuradhapura preserving its cultural and natural heritage and the attractiveness. As per the Credit Facility Agreement, the 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. 8,149.96 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

In my opinion, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance 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 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 Non-compliance with Laws, Rules and Regulations

The following observations are made.

| Reference to the Laws Rules and Regulations | Non-compliance | Impact | Response of the Management | Auditor's Recommendations |
|---|--|---|--|--|
| (a) Financial Regulations-770 | Neither the unserviceable items had been identified at the Board of Survey nor made recommendations, as enable to take necessary actions thereon. | The inventory records may not be updated. | Most of items are consumables with less than 02 years of life span and not included any fixed assts. | Need to make the recommendations as per Financial Regulation. |
| (b) Treasury Circular No.842 dated 19 December 1978 | A Register Fixed Asset had not been maintained by the Project. | Weaken controls over fixed assets. | The possibilities to implement the system as per circular instruction is being searched. | Need to adopt with the circular instructions. |
| (c) Schedule 03 of the Credit Facility Agreement | A comprehensive Action Plan covering the entire period of the Project with the financial and physical targets and the Budget for the year under review had not been prepared by the Project. | Weaken monitoring mechanism, financial and physical controls. | Deliverables on consultancy services had not been finalized. However, annual action plan was prepared for the year 2018. | The activities of the Project need to be planned and designed in order to carry out processes in effective manner. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

| Component | Physical Performance as at 31 December 2018 | | Impact | Reason for Delays | Response of the Management | Auditor's Recommendations |
|--|---|------------|---|--|--|---|
| | Expected % | Achieved % | | | | |
| (a) Identification of Sustainable Urban Infrastructure | 100 | Nil | Delays in implementation of the entire activities of the Project and possible extension of the period of the Project. | Delays in submission of primary plans of the Project. | The preparation of traffic master plan and storm water plan were remained delay, due to unavoidable reasons. | Need to apply sound efficient contract management system in order to achieve the objectives of the Project. |
| (b) Consultancy Service on Detailed Designing | 100 | 33 | -Do- | The report to be submitted by the Consultants on 12 October 2018 had not been submitted even up to end of the year under review. | -Do- | -Do- |

3.2 Underutilized Resources

The following observations are made.

| | Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|-----|--|--|--|--|
| (a) | It was observed that only a sum of Euro 0.91 million equivalent to Rs. 146.58 million representing 2 per cent of the total allocation of Euro 52 million equivalent to Rs.8,149.96 million made by the Lending Agency had been utilized as at 31 | Possible extension of the period of the Project. | The underutilization of funds mainly affected by the delays occurred on submission of detailed designs by the Consultants. | Financial Plans need to be prepared and implemented in effective manner. |

December 2018 after lapse of 2 years from the commencement of activities of the Project. Further, a sum of Rs.345 million had been allocated through the Annual Budget Estimate for the year under review and out of that a sum of Rs.149.41 million had only been utilized during the year review.

- (b) A house had been hired by the Project for the residential purpose of the Additional Project Director in November 2018 and an advance of Rs. 100,000 had also been made thereon. It was observed that the respective house had not been utilized for intended purpose even up to May 2019.
- The funds allocated to implement the activities of the Project were used for other purposes.
- The selected house was not used by the Additional Project Director and later hired another house. A request had been made to the owner of previous house to return the deposit of Rs. 100,000.
- Corrective actions need to be taken immediately.

3.3 Issues Related to Human Resources Management

| Cadre Position | No of Posts as at 31 December 2018 | | | Impact | Response of the Management | Auditor's Recommendation |
|-----------------------------|------------------------------------|--------|-----------|---|--|---|
| | Approved | Actual | Vacancies | | | |
| Deputy Project Director | 01 | Nil | 01 | The performance of the Project would be affected. | No development activities had been implemented as at 31 December 2018 and some of the posts had remained unfilled. | Vacant posts should be filled as per the approved carder. |
| Project Specialists | 03 | Nil | 03 | | | |
| Assistant Project Directors | 11 | 04 | 07 | | | |

3.4 System and Control

The following observations are made.

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---|--|---|--|
| (a) The duty lists relating to the Project had not been prepared up to end of the year under review. | Evaluation of the staff performance would not implemented. | Preparation of duty lists for some post are already completed, the balance part in the progress and it will be finalized by 30 June 2019. | List of duties of the staff should be given. |
| (b) Recruitment Procedure had not been prepared for the recruitment of staff to the Project. Further, cadre positions of the posts of Manager Environment Conservation, Development and Community Coordinator, Computer Data Operator and Service Assistant that included in the Human Recourse Plan had not been approved by the Department of Management Services. | Transparency of the recruitment may be affected. | Action will be taken to regularize it. | The recruitment procedure need to be prepared in proper manner with immediate effect and obtained the approval of the Department of Management Services. |
| (c) A separate register for issuing of bid documents to the bidders had not been maintained by the Project in terms of Section 6.1.4 of the Government Procurement Guidelines. As a result, evidence had not made available on issue of documents to the bidders in respect of items procured at a cost of Rs.557,100 in 02 instances during the year under review, as per section 3.4(f) of the Government Procurement Guidelines. | Lack of transparency of the procurement process applied. | Lists of contractors/ suppliers had been approved by the Project Director, before issuing bidding documents. | Government Procurement Guideline need to be followed. |

- (d) The provisions for depreciation of fixed assets had been made from the subsequent year of the assets procured, instead of the date of procurement. Accounting treatments not complied with the Accounting Standard. This is the depreciation policy had been adopted from the beginning of the Project. Need to comply with the Accounting Standard.