

Urban Project preparatory Facility - 2020

The audit of financial statements of the Urban Project Preparatory Facility 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 Article 4.02 (A) of the Loan Agreement No. 3706 SRI (COL) dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. This report consists of the matters observed during the course of audit and submitted for the consideration of the Executing and Implementing Agency of the Project. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project the Ministry of Urban Development, and Housing is the Executing Agency and Strategic Cities Development Project is the Implementing Agency of the Project. The objectives of the Project is to active high level of readiness for priority urban project. As per the Loan Agreement, the estimated total cost of the Project was US\$ 5.74 million equivalent to Rs.1,090.98 million and out of that US\$ 4.65 million equivalent to Rs.883.88 million was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 06 March 2019 and scheduled to be completed by 30 September 2021.

1.3 Opinion

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

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.

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

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

Component	Activity	Audit Issue	Response of the Management	Auditor's Recommendation
Identification of sustainable urban Infrastructure	Consultancy service for planning detailed design and procurement Traffic Transportation Urban upgrading Environment management – service	(i) Even though 38 consultancy reports had been submitted to the project, those reports had not been reviewed by the project even after lapsed of 01 to 06 months up to March 2021.	Due to the cancellation of project all 3 consultancies are terminated on 12/10/2020.	Sound and efficient Consultancy management system should be implemented in order to achieve the project objectives through completing project activities.
		(ii) Thirty consultancy reports, which should be submitted upto end of the year under review, had not been submitted even up to end of April 2021. Even though the consultancy reports were delayed a period ranging from 01 month to 13 months liquidation damages had not been charged from any consultant. As well, the provisions to recover liquidation damages had not been included to the agreements. Not assigning of adequate consultancy staff for the works was the main reason for the delay.	2020 plan could not be achieved due to Covid Pandemic and lockdown situation in the country	Sound and efficient Consultancy management system should be implemented in order to achieve the project objectives through completing project activities.

2.2 Idle and Underutilized Resource

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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According to the information received, only a sum of US\$ 1.32 million equivalent to Rs.255.40 million representing 29 per cent of the total allocation of US\$ 4.65 million equivalent to Rs. 883.88 million made by the Lending Agency had been utilized as at 31 December 2020 after lapse of 21 months from the commencement of the activities of the Project. The balance of US\$ 79394 equivalent to Rs.14.79 million had remained as unutilized imprest in the Special (Dollar) Account as at 31 December 2020, due to slow progress of the activities of the Project and poor financial forecasting.	This funding arrangement for the project activities will be affected and it leads to slow progress on implementation of project activities.	Due to Covid Pandemic delay in project activities	Need to complete the activities of the project during the scheduled period and according to budget.

2.3 Issue Related to Human Resources Management

The approved cadre of the Project consisted with 28 posts and out of that 8 posts including key managerial positions such as Senior Project Manager and Senior Environmental Officer had remained vacant as at 31 December 2020 without being taken action to fill the vacancies

No	Cadre Position	No of Posts			Audit Issue	Response of the Management	Auditor's Recommendations
		Approved	Actual As at 31 December 2020	No. of vacancies/excess			
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01	All staff	28	20	8	The approved cadre of the project as at 31 December 2020 was 28 and the actual cadre was 20. Thus vacancies as at	The minimum staff requirement of the PIUs were provided to initiate the planning activities. There was a delay to	Vacant posts should be filled as per the approved carder.

that date was 08 appoint all related
and this situation staff (as per the
had been badly approved cadre),
affected to the mainly for the
implementation positions of PMU.
activities of the Some of the
project. related works were
attended by the
shared staff of
PMU.