

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 Section 4.02 of the Article IV 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 (ADB). 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 Financing Agreement of the Project, the Ministry of Provincial Councils, Local Government and Sports, presently State Ministry of Provincial Councils and Local Government Affairs is the Executing Agency and Provincial Councils of 09 Provinces are the Implementation Agencies of the Project. The objective of the project is to achieve high level readiness for priority Urban Project. As per the Loan Agreement, the estimated total cost of the project was US\$ 12.20 million equivalent to Rs.1,879 million and out of that US\$ 10 million equivalent to Rs.1,540 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 12.20 million equivalent to Rs.338.85 million financed by Government of Sri Lanka. Out of that US\$ 5.74 equivalent to Rs.884 million was allocated for the State Ministry of Provincial Councils and Local Government Affairs of and the balance US\$ 6.46 million equivalent to Rs.995 million was allocated for the Ministry of Megapolis and Western Development. The Project had commenced its activities on 01 June 2019 and scheduled to be completed by 30 September 2021.

1.3 Qualified 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 2020 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 Deficiencies	Amount Rs.	Responses of the Management	Auditor's Recommendations
(a)	Activities of the Urban Project Preparatory Facility Project had been terminated halfway, due to Secondary Towns Sustainable Development Project had been removed from the pipeline project list. However, Development Expenditure amounting to Rs.176.36 million had been shown as non-current assets in the Statement of Financial Position as at 31 December 2020 without being completed detailed project reports of urban infrastructure of 25 local authorities.	176.36	No comments	Action should be taken to rectify.
(b)	Eventhough the six photocopiers and six computers procured and used by the Design Consultants were handed over to the Line Ministry at the end of the financial year, the value of those assets had been shown under the Development Expenses in the financial statements.	3.65	No comments	Action should be taken to rectify the financial statemets
(c)	Although the Project was wound up as at 31 December 2020, due to termination of Secondary Towns Sustainable Development Project from the Pipeline Project List, the financial statements had been prepared considering the going concern basis.	-	No comments	Once the activities of the Project are closed, winding up account should be prepared

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)	Department of Management Services Circular No.1/2019 of 05 March 2019	Project Steering Committees required to held once in 02 months. However, only one meeting had been held during the year.	No commented	Meeting of the Project Steering Committee should be held regularly.
(b)	Department of Management Services Circular No. 01/2019 of 05 March 2019	The Project Director had been paid an over payment of monthly salary Rs. 60,000 totaling to Rs. 960,000 contrary to the provisions made in the Circular of the Department of Management Service for the Project Director who work at project cost US\$ 5 million.	Instructions have been given to the relevant officers to further examine relating to the payment of salaries.	Instructions of the circular required to be adopt and action should be taken to recover the overpayments.
(d)	Department of Management Services Circular No.01/2019 of 05 March 2019	A sum of Rs.675,000 had been paid to the Financial Analyst of the Pura Neguma Project by way of appointing him as the Accountant of this project under acting basis contrary to the provisions of the circular.	This officer has been employed in service as a temporary in carrying out the daily activities of the project. Instructions had been given to the relevant officers to further examine on the payment of salaries.	Instructions of the circular required to be adopt and action should be taken to recover the overpayments.
(c)	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Audit and Management Committee meetings had not been held regularly during the year under review.	No commented	The Audit and Management Committee meetings required to be held regularly.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) Due to the availability of credit and the financial space available in the country, Secondary Town Sustainable Development Project had been removed from the list of Pipeline Projects by the Government. As a result, Urban Project Preparatory Facility project was terminated halfway by the Ministry after incurring of Rs. 176 million for the development expenditure. Therefore, expenditure incurred on the project become fruitless.	Not Comment	Action should be taken to rectify.
(b) Design and Procurement Consultancy Company was employed on 11 November 2019 under contract agreement signed on 03 August 2019. According to the work schedule attached to this agreement, all work should be completed before 31 December 2020 and handed over deliverables to Project Management Unit. However, sufficient progress had not been achieved by the consultancy company within the project period.	Not comment.	Assess the work carryout before the final payment.