

Urban Project Preparatory Facility (US\$ 12.20 Mn) - 2021

The audit of financial statements of the Urban Project Preparatory Facility 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 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 Loan Agreement of the Project, then Ministry of Provincial Councils, Local Government and Sports, presently Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government 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 will be financed by Government of Sri Lanka. Out of total cost of the project US\$ 5.74 million equivalent to Rs.884 million was allocated for the State Ministry of Provincial Councils and Local Government Affairs and the balance amount of 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 31 March 2022.

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 2021, statement of expenditure 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 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 Non-compliance with Laws, Rules and Regulation

No	Reference to the Laws, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Management Services Circular No. 01/2019 of 05 March 2019	The Asian Development Bank had approved a loan amount of US\$ 05 million for the preliminary facilities for the urban projects which are being implemented as a technical assistance project. However contrary to the para 3.2.1 of the Circular, a sum of Rs. 960,000 had been overpaid at the rate of Rs. 60,000 per month each for the director of the project.	Instructions have been given to the relevant Officers to further examine relating to the payment of salaries.	Instructions of the circular should be followed and action should be taken to recover the overpayments.
(b)	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 appointing him as the Accountant of this project under acting basis contrary to the provisions of the circular.	Instructions had been given to the relevant officers to further examine on the payment of salaries.	Instructions of the circular should be followed and action should be taken to recover the overpayments.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
Secondary Town Sustainable Development Project had been removed from the list of Pipeline Projects by the Government, due to the availability of credit and the financial space available in the country. 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 becomes fruitless.	in line with the Governments vision of Vistas of Prosperity and Splendour the Ministry has taken steps to work out modalities with consultation of the Department of External Resources, Department of National Planning & Asian Development Bank for the continuation of the project in the year 2022. Subsequently, Joint Cabinet Memorandum was submitted by the two Ministries for the revival of the project and the approval of the Cabinet of Ministers has been granted on 28th March 2022 to extend the ADB loan 3706 SRI for a period of 24 months with effect from 01 April 2022.	Action should be taken to rectify.