

Urban Project Preparatory Facility project - 2022

The audit of financial statements of the Urban Project Preparatory Facility project 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 Section 4.02 A of the Loan Agreement No. 3706 dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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, the Ministry of Urban Development and Housing is the Executing and Implementation Agency of the Project. The objective of the Project is to active high level of readiness for priority urban projects.

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 31 March 2022. However, all operations of the project were stopped at the end of 2020 according to the letter No. ER/AB/US/01(vol i) of the Director General of the Department of External Resources dated 18 August 2020, and the completion date of the project had been extended again up to 31 March 2024 according to the letter dated 27 April 2022 of the Asian Development Bank.

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 2022, 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 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
	Financial Regulations of the Democratic, Socialist Republic of Sri Lanka			
(a)	F.R.753 (1) and (2)	Although the assets valued at Rs.7.291 million had been handed over to Municipal Councils and write off from the financial statements as at 31 December 2022, However the documentary evidence such as Good Receipt Notes or other written evidence had not been submitted for audit by the above Municipal councils.	The assets were given to the respective municipal councils by a committee.	Financial Regulations should be followed.

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	Performance achieved		
		percentage	percentage		
a) Consultancy					
SMEC	Traffic, Transportation and Mobility Improvement	96	42	Financial and physical progress of the work carried out by the consultancy agencies was in a range of 42 and 68 per cent as at 31 December 2020 due to termination of the project work.	Termination of the project work
ECL	Urban Upgrading and Heritage	96	68		
WAPCO Limited	Environmental Preservation	86	50		
Response of the Management		Revalidation process has been commenced in 2023 and still process is in ongoing.			
Auditor's Recommendations		Action should be taken to expedite the project activities.			

Audit Issue	Response of the Management	Auditor's Recommendation
b) According to the letter No. ER/AB/US/01(vol i) dated 18 August 2020 of the Director General of the Department of External Resources, all operations of the project had been stopped at the end of the year 2020. However, 68 consultancy reports had not submitted by the consultants.	Due to the termination of the contract in October 2020 the reviewing of the deliverables not conducted with the limitations.	Action should be taken to expedite the project activities.
c) Even though, the project completion date had been extended up to 31 March 2024, a Detailed Action Plan had not been prepared and implemented until the end of the year under review. Moreover, 20 consultancy reports had not been reviewed even up to 31 December 2022.	Reviewing of the deliverables cannot be conducted due to contract termination.	Action should be taken to complete the works as per the work plan.
d) Even though, the project had been restarted on 27 April 2022, the revised activities of the project had not been implemented even up to the end of the year under review. Further, it was observed that due to such a situation; timely completions of the future project activities are doubt in Audit.	All activities are handled by the Ministry.	Action should be taken to expedite the project activities.