

Urban Project Preparatory Facility - 2024

The audit of the financial statements of the Urban Project Preparatory Facility for the year ended 31 December 2024 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 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, the Ministry of Provincial Councils, Local Government and Sports and presently Ministry of Public Administration, 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. Out of that US\$ 5.74 equivalent to Rs.884 million was allocated for the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government and the balance US\$ 6.46 million equivalent to Rs.995 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. After getting another extension the Loan was expired on 31 July 2024.

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 2024 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 Unsettle balance

Description	Amount Rs.	Response of the Management	Auditor's Recommendations
Unsettle balance	2,364,227	To date, no parties have come forward to claim the payment of Rs. 2,364,227. Accordingly, arrangements will be made to write off this amount as an operational expense in the future.	Identify the respective parties and settle the balance immediately.

3. Physical Performance

3.1 Matters in contentious nature

Audit Issue	Response of the Management	Auditor's Recommendations
Out of the 25 local government institutions entrusted with the documentation, 9 institutions convey that they have not received all the documents and it was reported to the audit that the 20 institutions have not initiated any urban development activity up to this point.	Although some Local Authorities have confirmed that they have effectively used the feasibility study reports, development proposals and development plans provided by the Ministry for their initiatives, other have faced challenges in doing so. These include a lack of financial allocations, the passage of the time since the documents were prepared, and local contextual issues. Since almost five years have passed since the preparation of these documents, updating them to suit current needs would also require incurring additional cost.	Effective action should be taken to utilize preliminary document for urban development