

## **Urban Project preparatory Facility - 2019**

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The audit of financial statements of the Urban Project Preparatory Facility for the year ended 31 December 2019 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. 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, except for the effects of the matters described in paragraph 1.2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 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. Comments on Financial Statements

### 2.1 Accounting Deficiency

The following observations are made.

<b>Accounting Deficiency</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
(a) The Property, Plant and Equipment amounting to Rs.2,909,686 had not been brought to the financial statements. Further, the provision	PPE under stated and Correct depreciation expenditure for the year had not been shown in the financial	Applied consistently on a Accrual basis except the Incremental	The actual cost of the PPE should be shown in the financial statements. The depreciation expenses on the fixed

for depreciation for those assets amounting to Rs.120,197 had not been made and shown in the financial statements.

administrative costs.

assets correctly recognized and accounted.

(b) The advances amounting to Rs.800,000 paid for rented houses to establish sub – offices of the Project had not been shown in the financial statements as an advance under the current assets.

The receivable advances were understated.

The payments of advances shown as incremental cost and we are treating incremental cost under cash basis

Unsettle advances should be shown in the financial statements.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	Delay / Audit Issue	Impact	Reason for Delays	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	According to the Project Administration Manual (PAM) of the Project, the consultancy service activities had been scheduled to be commenced in November 2018. Even though it had been scheduled to commence 3 consultancy service works at an estimated cost of Rs.833 million on 01 May 2019, the consultancy service agreements had been signed after delaying of 4 months. As a result, the commencement of Project activities will be further delayed.	The activities of the Project could not be completed during the scheduled project period.	Poor performance of the procurement process	Request for Proposal (RFP) issued in September 2018 and closed November 2018	Procurement of consultancy services should be efficiently managed.

### 3.2 Contract administration

<b>Accounting Deficiency</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
Even though three consultancy reports had been handed over during the year under review, those reports had not been approved by the Project, due to deficiencies observed on reports. As a result, the activities of the Project and approving of the main Loan could be delayed as well.	The activities of the Project could not be completed during the scheduled project period.	Local Coordination Committee and Ministry Coordinating Committee was delayed.	A system should be introduced to monitor the works of the consultants in order to get done the consultancy works and avoid the delays.

### 3.3 Idle and Underutilized Resource

<b>Accounting Deficiency</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
According to the information received, only a sum of US\$ 0.32 million equivalent to Rs.53.04 million representing 9 per cent of the total allocation of US\$ 4.65 million equivalent to Rs. 838.88 million made by the Lending Agency had been utilized as at 31 December 2019 after lapse of 9 months from the commencement of the activities of the Project. The balance of US\$ 0.40 million equivalent to Rs.72.90 million had remained as unutilized imprest in the Special (Dollar) Account as at 31 December 2019, due to slow progress of the activities of the Project and poor financial forecasting.	The funding arrangement for the project activities will be affected and it leads to slow progress on implementation of project activities.	We have to forecast six months ahead to take advance from the ADB, hence accounting balance may be shown higher amount due to this reason in the bank account.	Need to complete the activities of the project during the scheduled period and according to the budget.

**3.4 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, Procurement Specialist and Senior Environmental Officer had remained vacant as at 31 December 2019 without being taken action to fill the vacancies.

**3.5 Matters in Contentious Nature**

<b>Accounting Deficiency</b> -----	<b>Impact</b> -----	<b>Response of the Management</b> -----	<b>Auditor's Recommendation</b> -----
Professional Liability Insurance Coverage had not been obtained for 2 consultancy contracts valued at Rs.544 million in terms of section 24.1 of the consultancy contract agreement. However, a sum of Rs.41.99 million had been paid as advances to the consultants without being obtained insurance coverage.	This situation has violated the condition of contract.	Advance Payments were made after obtaining advance payment guarantees acceptable to SUDP	Guidelines of the consultancy agreement should be followed.