

Urban Project Preparatory Facility (US\$ 5.74 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 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 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 Implementing Agency of the Project. The objective 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 31 March 2022.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 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 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 **Accounting Deficiencies**

No	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditors Recommendations
(a)	According to paragraph 86 of the LKAS 37, contingent liabilities should be disclosed in the financial statements. However, possible contingent liabilities of final contract bills submitted by the 03 main consultancy firms amounting to Rs.61.3 million equivalent US\$ 26,000 and EURO 41,206 had not been disclosed in the financial statements.	61.3	Agreed. After paying for all dues for consultancy payments and claim committee has not given any Final approval as at 31 Decebmer 2021. Hence we did not make any provision.	Contingent liabilities should be disclosed according to LKAS 37.

- (b) The Property, Plant and Equipments which had been purchased for Rs.7.3 million for the use of sub-project offices established in 4 cities had been handed over to the respective urban councils as at 31 December 2020. However, the value of those assets had not been transferred from the financial statements at the end of the year under review.
- 7.3 As the finance agreement project was not closed as at 31/12/2021 and we have to keep these assets until closing of the project. (At present the government had extended the project period till 31/12/2024)
- The value of those Property, Plant and Equipments should be removed from the financial statements of the project.

3.2 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)	FR 225(1) of the Demoratic Socialist Republic of Sri Lanka	All payments should be supported by vouchers, prepared accurately and completely in the prescribed forms. However, amounting to Rs.409,055 in 09 vouchers were not dated and amounting to Rs.1.3 million in 13 vouchers not obtained the signatures of the recipient.	Agreed	Financial Regulations should be followed
(a)	FR 757	A Board of Survey of the PMU had not been conducted by the Project.	The board of survey has been done and accounted in February 2022.	Financial Regulations should be followed

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No.	Component	Activity	As at 31 December 2021		Audit Issue
			Expected physical performance percentage	Performance achieved percentage	
(a)	Development cost	consultancy	100	50	Eventhough the consultancy reports had not been submitted until October 2020, no any late fees had been recovered.
(b)	Development cost	consultancy	100	-	Eventhough 21 consultancy reports had been submitted to the project, those reports had not been reviewed by the project even after lapsed of 06 to 24 months up to June 2022. Lack of a proper plan to review the consultancy report was the main reason for the delay.

Responses of the Management (a) As per the conditions of the agreement, we cannot charge delay charges from consultants.
(b) Agreed.

Auditor's Recommendation Sound and efficient consultancy management system should be implemented in order to achieve the project objectives through completing project activities.

3.2 Issue in underutilization of Funds

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to the information made available, out of fund amounting to US\$ 0.679 million equivalent to Rs.133.9 million received to the Special (Dollar) Account maintain in the CBSL, a sum of US\$ 0.737 million equivalent to Rs.144.52 million had been utilized during the year under	Agreed	Control system should be implemented and deviation should be timely reported to the responsible officers in order to take corrective actions for the implementation plan of the project.

review. Further, a sum of US\$ 21,574 equivalent to Rs. 4.32 million was remained in the Special (Dollar) Account at the end of the year under review.

- | | | | |
|-----|---|--|---|
| (b) | A sum of Rs.540.00 million had been allocated through the Annual Budget for the year under review and out of that Rs.174.79 million had only been utilized during the year under review. Compared to the allocated fund, utilization of fund was 32 per cent for the year under review. | Agreed. The main reason is at the time of requesting budget allocations, there was no idea of closing down consultancy services. As a result, expected expenditure did not materialize. | Fund utilization plan should be incorporated with action plan of the project in order to make use of funds efficiently. |
| (c) | According to the above information, only a sum of US\$ 2.07 million equivalent to Rs.406.27 million representing 38 percent of the total allocation of US\$ 5.27 million equivalent to Rs.1,064.79 million made by the Lending Agency had been utilized as at 31 December 2021 after lapse of 33 months from the commencement of activities of the project. | Agreed. The main reason for not achieving performance and expenditure was due to the instructions received by the Department of Treasury to close downs the operations in mid 2020, due to covid related issues. | Control system should be implemented and deviation should be timely reported to the responsible officers in order to take corrective action for the implementation plan of the project. |

3.3 Matters in Contentious Nature

Audit Issue

Response of the Management

Auditor's Recommendation

As per the letter of the Director General of External Resources dated 18th August 2020 and No. ER/AB/US/01 (vol-i), 3 sub-projects were suspended from 12 October 2020. In response to the inquiry regarding the amount of Rs. 413.36 million spent on those projects at that time, it had been stated that those projects have been reactivated and it has been decided to implement the new plan using those tasks. However, those projects have not been implemented till 20 June 2022. Therefore, the above expenditure became a fruitless expenditure.

Since the project has been reactivated, it was decided to make use of the work already done by the previous consultant and proceed with the new plan.

Corrective action should be taken to implement sub - project immediately.