

Urban Project Preparatory Facility project - 2023

The audit of financial statements of the Urban Project Preparatory Facility project for the year ended 31 December 2023 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 balance amount of Rs.207.10 million is expected to be financed by the government of Sri Lanka.

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, however the project activities had been re implemented from 31 March 2022 and the completion date of the project had been extended 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 2023, 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

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Department of External Resources Circular No. SC&PMU/Grant/19 dated 25 July 2019	The consent of Department of External Resources should be obtained for all the foreign grants and technical assistance received to the Government of Sri Lanka. However the consent of Department of External Resources had not been obtained for the technical assistance of USD 01 million received for the project and information related to this technical assistance grant had not been submitted to the audit.	Ministry has not signed an agreement.	Consent of the Department of External Resources should be obtained for all foreign grants and technical assistance given to the Government of Sri Lanka.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit issue	Response of the Management	Auditor's Recommendations
13 Consultancy reports for traffic transportation and mobility, 04 Consultancy reports for urban upgrading heritage conservation and capacity building and 05 consultancy reports for environmental management service, had been handed over to three private companies for preparing first and final reports. However, the project had not achieved any progress on these consultancy reports.	Ministry cannot request to submit the un submitted documents due to cost and time based contracting nature of the consultancy contracts.	Action should be taken to obtain the consultancy reports within the time line.

3.2 Delays in commencement of activities of the project

Component	Activity	As at 31 December 2023		Delay/ Audit Issue	Reasons for delays
		Expected Date to be commenced No of reports	Delay Months		
<u>Consultancy work</u>	Verification of the project list	December 2022	12	} Delay in submitting the consultancy Reports	Time line has been changed.
	Preparation of Feasibility Reports	March 2023	09		
	Preparation of Detailed project Reports	September 2023	03		
	Preparation of O & M plan	November 2023	01		

Response of the Management.

After establishment of UPPF facilitating committee under the Ministry of Finance, committee has requested to ADB to obtain the Technical support for preparatory activities until its closing date of 31.10.2023. Hence time line has been changed accordingly.

Auditor's Recommendations

Action should be taken to complete the works as per the work plan.

3.3 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The project had been re-implemented and the previous scope of the project had been changed and started with a different scope under Trincomalee and Dambulla districts which are proposed to be completed by 31 March 2024 but the target attainment was at a low level by 31 December 2023 due to that completion of the project activities under the time extension of the project was a problematic issue in audit.	Secretary, MUD has requested from ADB to give the time extension from 31.03.2024 to 31.12.2024 for completed the balance work. Cabinet approval also received for time extension but ADB has close the UPPF loan by 31.03.2024. Based on the above project activities mentioned incurred delays	Action should be taken to complete the works with in the time line.
(b) Although project activities should be completed by 31 March 2024, however 10 activities had not been started up to 31 December 2023.	Still the detailed designs are in under designing. ADB didn't give these concurrence due to pending decision on the Time extension of UPPF due to Loan closing of UPPF those could not be proceed as planned.	Action should be taken to complete the works as per the work plan.

3.4 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The cities of Dambulla, Trincomalee, Kurunegala and Ratnapura were selected for this project and a sum of Rs. 418.29 million had been spent under 3 components from 2019 to 31 December 2022. After suspension of the project in the year 2020, and extending the project period until 31 March 2024, the scope was changed and the priority was given only to the districts of Trincomalee and Dambulla, so the total amount spent by the project on behalf of those districts up to now is identified as an fruitless expenditure in the audit.	Project Reactivation has been focused on Tourism Facility and Tourism Infrastructure Development in Trincomalee and Dambulla as per the instruction given by the Ministry of Finance. The ministry should adhere to the policy decision taken by the Government of Sri Lanka. Therefore Ministry cannot comment on the expenditure done for the project preparatory activities on Kurunegala and Dambulla.	The attention should be taken to spend only for activities related to the project in a planned manner

3.5 System and Controls

Audit Issue

Response of the Management

Auditor's Recommendation

During the re-implementation of the project, the steps made regarding the usability of the previous consultancy reports had not been considered.

Utilizing the previous work is more critical for recent development interventions identified under the Project. Re-scoping of the Project is collective decision of the Government of Sri Lanka.

Previous Consultancy reports should be used in effective manner.