

Urban Project Preparatory Facility project - 2024

The audit of financial statements of the Urban Project Preparatory Facility project (UPPF) 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 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 Agency 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\$ 6.42 million equivalent to Rs. 1,297.14 million and out of that US\$ 5.27 million equivalent to Rs.1,064.79 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 232.35 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 reimplemented 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 2024, 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 Management	the Auditor's Recommendations
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Department of External Resources Circular No. SC&PMU/Grant/19 dated 25 July 2019	Although all foreign grants and technical assistance provided to the Government of Sri Lanka must be approved by the Department of External Resources, the technical assistance of US\$ 01 million received for the project had not been approved by the ERD and no information related to this technical assistance had been submitted to the audit.	The said Technical Assistance, valued at USD 1 million, has been granted by ADB in accordance with their own procurement guidelines, with payments processed through their accounts.	Consent of Department of External Resources should be obtained for all foreign grants and technical assistance given to the Government of Sri Lanka.
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3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit issue	Response of the Management	Auditor's Recommendations
(a) According to the financing agreement, the Asian Development Bank had provided USD 5.27 million equivalents to Rs. 1064.79 million and the Government of Sri Lanka should spend USD 1.15 million, which is equivalent to Rs. 232.35 million. The project was started on 06 March 2019 and scheduled to be completed by 31 December 2021. But only 1.33 million USD equivalents to Rs. 434.59 million of the agreed loan amount had been spent due to the fact that the work was not carried out properly.	The COVID-19 pandemic significantly affected on-ground project activities due to lockdowns and travel restrictions. In July 2020, the External Resources Department (ERD) requested the Ministry to assess the feasibility of terminating project activities. ADB removed the UPPF and its implementation phase from their project pipeline. As a result, the Ministry terminated all consultancy services and Project Implementation Units (PIUs).	Actions should be taken to utilize loan fund effectively.
(b) Kurnegala and Rathnapura districts project activities were completely removed due to scope change of the project and their expenditure could	Most of the completed activities in Kurunegala and Ratnapura have been handed over to the Urban Development Authority (UDA) for	Consultancy reports should be used on effective manner.

be burdens to the Government in future. Furthermore, the audit could not be identify the possibility to use the incomplete consultants reports prepared for these 2 districts by spending loans from 2019 up to the time of termination of the project activities.

future incorporation, with the objective of minimizing the financial burden on the government.

ADB provided re-payment loan with interest. Therefor all expenditure burdens to the Government.

- (c) 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 terminated at the end of the year 2020. It was observed that due to this termination, 68 consultation reports had not been submitted to the project. Furthermore, it was observed that according to the letter dated 27 April 2022 of the Asian Development Bank, the project completion date had been extended to 31 March 2024, but the project had not been able to obtain the 46 consultation reports by 31 December 2024.

The project was terminated based on a decision made by the External Resources Department (ERD). Furthermore, the COVID-19 pandemic with its associated travel restrictions and lockdown measures had a severe impact on the progress of the project.

Actions should be taken to obtain the consultancy report within the scheduled time.

- (d) Although the project had been re-implemented with a different scope and proposed to be completed only Trincomalee and Dambulla districts by 31 March 2024. The following activities had been expected to be carried out under the new project of Sustainable Tourism Sector Development Program and the expected work related to the Trincomalee district was remained at a low level.

- (i) Procurement of consultancy contract for Dambulla and Trincomalee had been started on 15 December 2023 and expected to be completed on

Initially, the procurement of readiness packages for Dambulla City was planned to commence. However, the National Planning Department (NPD) declined the request to obtain

Need to expedite the procurement process.

31 March 2024. However there was no progress as at 31 December 2024.	consultancy services for construction supervision activities under the said contract.	
(ii) There was no progress in review the design and bid document, incorporating comments and finalize the design and bid documents of Dambulla and Trincomalee Package 3 and 4.	3 and 4 Packages completed up to Concept design level including social and environment safeguard reports and Preliminary estimates.	Need to expedite the procurement process.
(iii) The progress of Stability checking of the existing building was 60 percent of above project.	This stability test should be outsourced. But still National Planning Department not given their consent for commencing procurement activities of the project.	Action should be taken to discuss with National Planning Department to obtain their clearance.

3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The cities of Dambulla, Trincomalee, Kurunegala and Ratnapura had been selected and the Asian Development Bank had provided a loan of US\$ 5.27 million equivalent to Rs.1064.79 million to carry out consultancy work to prepare the basic plans required for the provision of a loan of Rs. 200 million. US\$ 1.6 million equivalent to Rs. 523.42 million had been spent out of that amount up to 31 December 2024. In addition to that , USD 1 million had been provided as technical assistance grant. However, it was agreed to provide a loan of Rs. 30 million for the development of the tourism sector only as a Sustainable Tourism Sector Development Programme for the cities of Dambulla and Trincomalee due to the change in	Reactivation of the UPPF project activities, a Technical Assistance (TA) package valued at USD 0.6 million was made available to the Government of Sri Lanka (GOSL) by the Asian Development Bank (ADB). All costs associated with these activities were fully borne by ADB, thereby relieving the financial burden on the government. Information and data in deliverable maximum utilize the preparation of document related to seep change activity. Also balance deliverable available in Ministry & UDA utilize for further requirement Therefore	Actions should be taken to complete the works on stipulated time frame.

the scope of this project,

expended amount is not as
fruitless expenditure.

However, the work had also been stopped midway due to inability to complete the work as planned and the end of technical assistance under the grant. As a result, the expenditure of Rs. 523.41 million incurred for this project had become a fruitless expenditure.