

## **Head -123 Ministry of Urban Development and Housing**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of Urban Development and Housing Ministry for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act No. 19 of 2018. The summarized reports on the financial statements of the Urban Development and Housing Ministry to be submitted in terms of the paragraph 11(1) of the National Audit Act No. 19 of 2018 which contained my comments and observations had been submitted to the Chief Accounting Officer on 01 June 2021. The detailed management report of the Urban Development and Housing Ministry to be submitted in terms of the paragraph 11(2) of the National Audit Act No. 19 of 2018 had been submitted to the Chief Accounting Officer on 14 December 2021. This report in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with paragraph 10 of the National Audit Act No. 19 of 2018 is presented to the Parliament.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Urban Development and Housing Ministry as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. 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 qualified opinion.

#### **1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements**

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Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of paragraph 38 of the National Audit Act, No. 19 of 2018 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.

As per paragraph 16(1) of the National Audit Act No. 19 of 2018, Urban Development and Housing Ministry 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 of Urban Development and Housing Ministry.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in Ministry and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carry out.

#### **1.4 Auditor's Responsibility for the Financial Statements**

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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 summarized 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.
- 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 in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

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In terms of Sub-section 6 (1)(d) of the National Audit Act, No.19 of 2018, I state the followings.

- (a) The financial statements had been consisted with preceding year.
- (b) The Recommendations made by me on the financial statements of the preceding year had not been implemented.

## 1.6 Comment on the Financial Statements

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### 1.6.1 Non-compliance with Provisions of the Circular

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Eventhough the financial statements are required to be prepared as per the Guidelines No.06 issued by the Department of State Accounts, instances that out- side the requirement are as follows.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Reasons had not been made separately on the savings of the project in development programme as per the paragraph 3.5 of the Circular No.02/2020 of the Public Finance.	Summarized facts after calling reasons for the saving pertain to the each project had been indicated as reasons for the savings.	Action should be taken as per the Circular No.02/2020 of the Public Finance.

### 1.6.2 Reconciliation Statement of the Advance Account of Public Officer- Exceeding the Limits

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Eventhough limit of the Advance Account of Public Officer was Rs. 7,100,000 for the year 2020, expenditure was Rs. 36,364,359 and as a result, expenditure of Rs. 29,264,359 had been incurred over the maximum expenditure limit.	Agreed. To revised the maximum expenditure limit of the Advance Account of Public Officer of year 2020 had been submitted to the Department of Budget of the Ministry of Finance and it was informed that the attention had been drawn to revised the limits by a Cabinet Paper.	Action should be taken to remain within the advance accounts limits.

### 1.6.3 Non Maintenance of Books and Records

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It was observed in sample audit test that the following certain records had not been maintained and certain records had not been maintained properly and updated manner by the Ministry.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) <b>Inventory Book</b> Inventory Register had not been maintained by the Metro Colombo Urban Development Project as per the FR 751 and 763.	Comment not received.	It is required to maintained Inventory Register as per the FR 751 and 763
(b) <b>Liabilities Register</b> Liabilities Register had not been maintained properly and updated manner by recording all liabilities as enable to check regularly as per the FR 214	Comment not received.	Action should be taken to settle the bills without delay after checked.

### 1.6.4 Lack of Audit Evidence

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Eventhough a sum of Rs. 278.82 million received by recovering of advance bond and performance bond of the abandoned contract of the Strategic Cities Development Project during the preceding year had been sent to the General Treasury by the Line Ministry, evidences had not been submitted to Audit thereon.	Confirmation letters will be submitted from the Ministry.	Confirmations should be submitted to Audit.

## 2. Financial Review

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### 2.1 Management of Expenses

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Entire allocations of the 07 recurrent expenditure object aggregating to Rs. 1,944,000 and 07 capital expenditure object aggregating Rs.1,375,000 had been remained unutilized.	Agreed. Allocations of this objects had been remained unutilized 100%, due to limitation of office works with the covid-19 situation and insufficient staff.	Annual Budget Estimates should be prepared in realistic manner.

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| (b) | Eventhough there was a savings of Rs. 985 million under the Colombo City Urban Renewable Programme (123-02-07-29-2506-12) as at 31 December 2020, a sum of Rs. 580 million had been allocated by a supplementary estimate under the warrant no 46 on 17 December 2020 and entire supplementary estimate amount had been remained unutilized.  | Agreed with the observation  | Allocation made by a supplementary estimate should be utilized for the relevant activities during the year.   |
| (c) | The Asian Infrastructure Facility Investment Bank had agreed to finance US\$ 200 million equivalent to 35,163.7 million for the Urban Reawaking project support Project under the agreement entered on 22 July 2019. A sum of US\$ 693,444 equivalent to Rs. 128,002,892 representing US\$ 196,863 and US\$ 496,581 respectively had been recovered as commitment charges for the unutilized loan of US\$ 36,338,959 and US\$ 91,663,933 remained as at 31 December 2019 and 2020 respectively. | All the expenditure of the year 2020 had been accounted under the front end and commitment charges component. Values are recorded based on the information provided by the Department of Treasury Operation. | Action should be taken to reduce the such fruitless expenditures by implementing project efficiently during the period as per the plan and entered agreement infaver of the Government. |

**2.2 Liabilities and Commitment Entered**

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The following observation is observed.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Eventhough liabilities should not entered over the provision as per the F.R 94(1), liabilities of Rs.20,221,653 had been committed over the net allocation of the 02 expenditure objects.	This liabilities arise, due to electricity, water, rent and consultancy service bills payable for the project office of the development project.	Liabilities should not entered over the provisions.

**2.3 Certification Required to be done by the Chief Accounting Officer/ Accounting Officer**

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
The Chief Accounting Officer and Accounting Officer needs to certify that an effective internal control system on financial control is established and continuously maintained by the Ministry in terms of provision of the paragraph 38 of the National Audit Act No. 19 of 2018 and periodical reviews should be carried out to ensure that the respective system are effectively implemented and make necessary modifications. The details of such reviews need to be documented and copies of the documents should be submitted to the Auditor General. However, the declarations on such reviews had not been presented to audit.	Comment not received	Need to be complied with the provisions made under the paragraph 38 of the National Audit Act No. 19 of 2018.

**2.4 Non-compliance with Laws, Rules and Regulations**

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The following instances were observed in sample audit test that non-compliance with Laws, Rules and Regulations

<b>Reference to the Laws, Rules and Regulations</b>	<b>Non-compliances</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 103 and 104	It is observed in verification of stock in 2019 that there was a deficiency of 03 Solar Panel valued at Rs.360,000 issued to the RTC sub project remained under the Metro Colombo Urban Development Project and deficiency in 01 office	Comment not received	It is required to identify the person who responsible and take action by holding an investigation as per the Financial Regulation and submit primary and final report.

chair and 01 laptop of CMC in year 2020. However, It was observed that the step had not been taken to losses and submit the primary report and final report thereon.

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| (ii) Financial Regulation 763 (b) (ii) | It is required to take action to avoid retain the over stocking, accumulation and deterioration of stock, there was a 178 goods in 04 implementing places of the Metro Colombo Urban Development Project allowing accumulation and deterioration of stock.   | Comment received   | not | Action should be taken as per the FR 762.  |
| (iii) Financial Regulation and 760     | 757 Eventhough investigation required to be carried out within three months from the commencement of the Board of Survey regarding the differences, shortages and losses detected by the reports of the Board of Survey, discrepancies of 109 goods belong to the 32 items identified in the Board of Survey carried out year 2019 and 2020 of the Metro Colombo Urban Development Project and Anuradhapura Integrated Urban Development Project had not been taken any action regarding the respective discrepancies. | There was a delay in taking necessary action, due to lock down impose as covid -19 prevailed in the country. |     | Action should be taken as per the F.R regarding the differences, shortages and losses shown by the reports of the Board of Survey. |

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| (b) Public Finance circular No. 05/2016 dated 31 March 2016                      | Annual Board of Survey in 6 project sites of the Metro Colombo Urban Development Project had not been carried out and submitted the respective reports to the Audit.  | Comment received   | not Board of Survey should be carried out as per the circular and submit the respective reports to the Audit.   |
| (c) Paragraph 3.2 of the Public Finance Circular No. 05/2016 dated 31 March 2016 | Eventhough recommendations had been given by the Committee regarding the 139 goods belong to the 29 items which are unable to use identified in the Board of Survey carried out year 2019 and 2020 of the Metro Colombo Urban Development Project and Anuradhapura Integrated Urban Development Project, action had not been taken accordingly and submit the final reports to the Auditor General.                             | There was a delay in taking necessary action, due to lock down impose as covid -19 prevailed in the country. | Action should be taken as per the recommendations given and submit the final reports to the Auditor General.  |
| (d) Procurement Guidelines 2006  | (i) Paragraph 7.9.11 If there is a more deference than the allowable margin of the rates between engineer estimates and bills of quantity of the bid, it is required to evaluate proportional analysis obtain from the bidder for the respective works as satisfied as by the Technical Evaluation Committee on the relevant items of the respective deference. However, Technical Evaluation Committee had not taken action as | Agreed with the observation.   | If there is a deference more than the allowable margin between engineer estimate and the quantity items of the bids, it is required to made a rates analysis on the relevant items of the respective deference. |



per the Guidelines, eventhough there was a variation in the margin of the items remained between 15 per cent and 216 per cent or Rs. 40 million of the bid submitted and engineer estimate of the Srimahabodi Car Park and Erection of Interpretation Board Anuradapura contract estimated valued at Rs. 213.62 and variation remained between 13 per cent to 90 per cent of the margin of the items of the Lion Pillour Round Board, Railway Plaza contract estimated at Rs. 140.54 million.

(ii) Paragraph 5.4.12

It is required to submit particulars of payment of money for the recovery of VAT before 15<sup>th</sup> of the next month to the Commissioner General of Inland Revenue with the copy to the Auditor General. However, action had not been taken accordingly regarding the VAT amount of Rs. 359.64 million paid for the construction, goods, consultancy contract and procurement of the Strategic Urban Development Project and payment of VAT amounting to Rs 5,305,833 in 21 instances of the Anuradhapura Integrated Urban Development Project.

Agreed with the observation

Action should be taken as per the Procurement Guidelines.

(e) Loan Agreement of the Support to Urban Regeneration Project

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| <p>(i) Paragraph 4.09 of the General Condition of the Loan Agreement of 24 April 2019</p> | <p>Eventhough the Financial Management System of the Support to Urban Regeneration Project should to be maintained through the Ministry and Urban Development Authority, such a method had not been introduced at the end of the year under review.</p> | <p>It was delay, due to Covid-19 situation.</p>   | <p>Financial Management System of the Project should be maintained through the Ministry and Urban Development Authority.</p> |
| <p>(ii) Schedule 2 of the Loan Agreement (Environmental and Social Needs)</p>             | <p>Eventhough an Environmental and Social Management Planning Framework and Resettlement Policy Framework should be prepared before implementing the project, such policies had not been made by the Support to Urban Regeneration Project.</p>         | <p>Two resettlement plans for the Obesekara and Madampitiya lands had been prepared and obtained approvals.</p> | <p>Policy Frame works should be prepared as per the Loan Agreement.</p>  |

**3. Operating Review**

**3.1 Planning**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
<b>(a) Strategic Cities Development Project</b>		
<p>(i) Eventhough a comprehensive action plan highlighting the financial and physical targets covering the entire period of the Project to achieve the specific objectives required to be prepared for the Project and Urban Project Preparatory Facility Project, such a plan had not been prepared and implemented.</p>	<p>This had not been done, due to cancellation of programmes in mid-year as Covid -19 pandemic.</p>	<p>Compressive Action Plan should be prepared.</p>

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| <p>(ii) Activities of the 09 sub project valued at Rs. 3,380.70 million (US\$ 19.66) expected to be implemented in Jaffna city had been suspended by the end of year under review, due to procurement activities could not be carried out timely based on the plan submitted with delays by the consultancy company. As a result, expected benefits could not be achieved therefrom.</p>   | <p>Agreed with the observation</p>   | <p>Delay charges should be charge from the company as per the agreement.</p>  |
| <p>(iii) A balance of US\$ 4.39 equivalent to Rs.797.85 had been remained as at 01 January 2020 in the Special (Dollar) Account maintained at the Central Bank of Sri Lanka by the project. In addition, an amount of US\$ 13.80 million equivalent to Rs. 2,544.13 had been received during the year under review. However, an amount of US\$ 3.93 million equivalent to Rs. 732.60 million had been remained excess in the Special (Dollar) Account as at 31 December 2020, due to poor financial forecast of the Project.</p> | <p>IUFR are submitted for the obtain the fund quarterly basis in the project with foreign funds. This time may be increased from 4 months to 4.5 months with the processing time. Therefore, funds are remained from 3 months to 4 months in the Dollar Account.</p> | <p>Action should be taken to achieved better financial and physical performance by making financial forecast correctly of the foreign projects.</p>       |
| <p>(b) Support to Urban Regeneration Project</p>   |  |   |
| <p>(i) An amount of Rs. 984 million had been paid to the respective contract on 06 April 2021 for the commencement of works without obtained the approvals from the Environment Consultancy Committee and for air, fire, electricity and water drainage lines before commencement of the construction activities of the Stadiyamgama, Obesekarapura and appalwatta project</p>   | <p>Stadiumgama and Obesekarapura project had completed the Environment Consultancy Committee report by 15 June 2021 and submit to the Urban Development Authority</p>  | <p>As per the 4.1 of the Procurement Guidelines, pre procurement process should be plan effectively to complete the project within the specific time.</p> |

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| (ii) | Eventhough 04 plots of lands (37.5 Acar) should be develop during the year under review as per the overall plan of the project for the redevelopment, action had not been taken to develop the respective lands and resettle even at the end of May 2021. | Procurement activities is being carried out to develop 3 lands out of the 10 selected lands. Conditions for the development was prepared and submitted to the AIIB.   | As per the 4.1 of the Procurement Guidelines, pre procurement process should be plan effectively to complete the project within the specific time. |
| (c)  | Overall Action Plan and Budget covering entire period of project had not been prepared by the Anuradhapura Integrated Urban Development Project.  | The project unable to complete preparation of comprehensive Action Plan covering entire period of project by the end of year 2020, due to delay in consultancy service on planning project particulars. However, it was not prepared. | Overall Action Plan and Budget including expected targets should be prepared.  |

### 3.2 Non-Performing the Duties

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The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
<b>(a) Strategic Cities Development Project</b>		
(i) Project had not commenced works of 16 drainage systems under the Gall City Development for the control of flood during the year and action had not been taken to acquire the lands for that purpose also even at the end of the year under review. It was observed that the objective of the project unable to achieve under this condition.	Acquisition of lands is being carried out for the 8 water retain areas in Gall area. Commenced the activities of the 6 cross canal in identified lands.	Action should be taken to given expected benefits by doing works of the project as planned.

- (ii) Physical progress of the 10 projects which estimated value was Rs. 3,198.56 million and expected to be completed during the year under review under the project had been remained lower than 50 per cent. Further, a project which estimated value was Rs. 16.08 million and to be completed at the end of the year under review had not achieved any physical progress.
- There were 04 contractors with liquidity problems and performance of the other contractors become low, due to covid pandemic and lock down situation prevailed in the country in 2020.
- (iii) Eventhough it was identified to establish 10 water retain areas by the side of Moragoda stream to control the flood in the Gall city by a feasibility study report of a consultancy firm of the Project, activities of acquisition of plots of lands belong to that water retain areas had been suspended by the end of preceding year. Further, a wetland management plan also had not been prepared thereon.
- Due to all proposed lands for the water retain areas belong to the private owners, the Government has no right to manage as wetland without completing the acquisition process of such lands and process of preparation of SCDP wetland management plan had been abended by the PMU.
- Action should be taken to implement the recommendations of the feasibility study reports.
- (b) Anuradhpura Integrated Urban Development Project
- (i) A contract for construction of Anuradhpura fair building and muiltly storied car park estimated at a cost of Rs.877 million had been abandoned, due to reason such as busy condition remained in Anuradhapura City and have to pay compensation for the people who affected by the construction. Accordingly, it was observed that the project is implemented without proper feasibility study.
- Funding Agency had approved the feasibility report and investment plan for the development of fair and muiltly storied car park and inconveniences that can be occurred to the general public can be manage by the Environmental Management Plan. Sub projects were abandoned, due to consideration of the Funding Agency/AFD.
- Action should be taken to carried out a cost benefit analysis by doing feasibility study before implement the project.

- (ii) Eventhough the an agreement had been entered with a consultancy firm at Rs. 212.66 million (Euro 1.18 million) on 29 August 2017, the final report on consultancy service required to be submitted by 12 October 2018 had not been submitted even on 31 December 2020 and period of the consultancy contract had not been extend after 31 December 2019. However, project had paid Rs. 100.32 million at the end of the year under review including Rs. 42.11 million for the year under review to consultancy firm. According to the paragraph 46.2 of the consultancy service agreement, action had not been taken by the project to recover maximum delay charges of Rs. 21.26 million on delay period in submission of 03 consultancy report is over one year.
- Extension of time up to 31 March 2021 had been approved by the Constancy Procurement Committee appointed by the Cabinet. Liquidate damages can be consider after evaluation. Payments were made for the deliverables that complete the condition of the contract.
- Action should be taken to charge the maximum delay charges that can be recovered as per the agreement.
- (iii) Another agreement had been entered with the same consultancy firm at Rs.18.62 million (Euro 0.11 million) to obtained consultancy on wastewater management of the project in 2019, eventhough the reports were not submitted in due dates as above.
- Feasibility study of wastewater management (addition to the initial contract) had been completed by the end of 2020. Eventhough all deliverables pertaining to the plans have been submitted by the end of March 2021, some deliverables were not completed. Therefore, another procurement committee had been appointed by the Secretary in May 2021. Evaluation of EOT is being carried out.
- Seek on the pre services in formally in obtain consultancy services.

(c) Metro Colombo Urban Development Project

It was observed that the RCT system could not be established in proper place before completion of the project, as the construction activities of the building for flood control and water management center had not been completed even on the date of 05 May 2021.

Comment not received.

Action should be taken to achieve the expected result by doing the works of the project as plan.

(d) Support to Urban Regeneration Project

(i) Eventhough a sum of Rs. 155.6 million had been paid as mobilization advances on 26 January 2021 by selecting a contractor for the construction of 700 housing units of the Applewatta housing construction project, initial works of the project had been carried out without supervision of the consultants, due to non-selection of the consultants for the project.

It cloud be affected to period of the project completion. This delay, due to covid -19

To assess the construction projects are carried out as per the standard it is required to done under the supervision of the consultants.

(ii)Eventhough contractors and consultant firms are required to be selected for the construction of 700 housing units of the Madampitiya Housing Project before 31 December 2020 as per the Action Plan of the Project, contractors and consultancy firms had not been selected for the project even on 08 April 2021.

Contract had been awarded to a firm for specialist services on 16 March 2021. The initial activities was done by architectures and engineers attached to the Project.

Action should be taken as per the Action Plan.

### 3.3 Non -Achievement of Expected Output Level

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The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The estimated total cost of the Anuradhapura Integrated Urban Development was Euro 62.4 million equivalent to Rs. 10,025 million and out of that Euro 52 million equivalent to Rs. 8,354 million had been agreed to finance by the Agence Francaise De Development. The activities of the project commenced on 01 December 2016 and scheduled to be completed by 31 December 2021. However, Euro 1.84 million equivalent to Rs. 308.84 million representing 3 percent of the total allocation had only been utilized as at 31 December 2020 after laps of 4 years. Out of Rs. 228 million allocation made by the Government budget, Rs. 125.54 million had been utilized during the year under review.	Agreed with the observation. Out of the initial advance obtained from the AFD, 87% (Rs. 204.25) had been utilized at the end of financial year 2020 by the project and Second renewable advance had been received by May 2021. After identifying the expected saving from the allocation had been transferred to the project comes under the Ministry with the approvals of Line Ministry.	Action should be taken to expedite the activities of the project after obtaining the final reports of the consultancy service.
(b) Eventhough activities of second sub project of the Anuradhapura Integrated Urban Development project required to be completed by the end of year 2021, procurement activities of 10 small project valued at Rs. 6,883.25 million had not been competed even on May 2021 and it was observed that the land acquisition and payment of compensation activities had been delayed up to December 2021.	Two contract packages had been awarded by 31 December 2020. procurement process of one contract package had been commenced. 4 contract packages valued at Rs. 947.18 million had been awarded by June 2021 by the Project and procurement process of other 2 packages had been commenced. The remaining packages remained under the pre procurement stage including land acquisition and resettlement activities. Please note that the implementation of the activities of the project had been badly affected by the covid 19 pandemic.	Action should be taken to fulfil the activities of the project timely as plan.



### 3.4 Non-Achievement of Expected Outcomes

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The following observations are made.

	<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a)	Activities of the 05 sub contract awarded at Rs. 3,616.18 million (US\$ 20.19 million) had been completed halfway, due to activities of the Strategic Cities Development Project had not been manage effectively. The activities of the project scheduled to be completed by 31 December 2021 and due to revision of scope by reducing estimated cost by Rs. 360.64 million of the 8 contracts that could not be completed the construction works at that date, the expected benefits could not be achieved therein.	Agreed with the observation. Award of contracts of the 2 project of the Kandy main road had to be cancelled, due to liquidity problems of the contractor and mid canal 1 and 2 had to be limited, due to issues in plan and land acquisition. Moragoda canal in Gall had cancelled, as poor performance of the contractor.	Manage the project effectively as enable to fulfil the expected objectives of the project.
(b)	Out of total amount US\$ 213 million equivalent to Rs. 27,890.22 million agreed to be provide by the Lending Agency for the Metro Colombo Urban development Project, US\$ 68.4 million equivalent to Rs. 10,513.4 million representing to 32 per cent and out of total allocation under the Government contribution US\$ 108 million equivalent to Rs. 14,141.52 million, US\$ 65.7 million equivalent to Rs. 10,105.06 representing to 60.8 percent had been utilized as at 31 December 2020. It was observed that the ability of utilization of balance amount during the project period end at 31 December 2021 is doubtful.	Comment not received.	Action should be taken to utilized allocated funds for the project effectively.

### 3.5 Abandoned of Project without Completion

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Audit Observation	Comment of the Chief Accounting Officer	Recommendation	
Strategic Cities Urban Development Project			
(a)	Eventhough a sum of Rs. 8.42 million had been paid for the consultancy services on planning and supervision of construction of the conservation of land of old Kachchery building in Jaffana estimated at Rs. 152.47 million by the end of the year, construction of Kachchery building project estimated valued at Rs.485 million had been abended, due to non-submission of plans within the time frame.	It is unable to submit as a time table to the Consultant, due to delay and delay in accepting process specially delay from the Department of Archeology. Therefore, scope of the consultancy contract had been revised for the reduction of plan of the old Kachchery building.	Action should be taken to recover the delay charges and expedite the activities of the Project
(b)	UPPF Project- project that commenced for the identification of projects in Kurunagala, Dabulla, Trincomalee and Rathnapura		
(i)	Total estimated 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 agreed to provided by the Asian Development Bank. Project commenced its activities on 06 March 2019 and expected to be completed by 31 March 2021. Out of the allocations made by the Asian Development Bank, US\$ 1.32 million equivalent to Rs. 255.40 million representing to 29 per cent had been utilized for the	It was unable to achieve 2020 plan, due to cancellation of project with the covid pandemic by the Treasury and lock down situation in the country.	Action should be taken to achieve the expected objectives and carry out the activities without loss to the Government by completing the planned works accurately within the agreed loan period.

activities of the project as at 31 December 2020. As abandoned of the activities of the project according to the letter no. ER/AB/US/01(vol-i) dated 18 August 2020, this loan amount was only burden to the country.

- (ii) The consultancy firm of the project had failed to submit the 30 consultancy reports that required to be submitted during the year under review as agreed even by the month of October 2020. Eventhough there was a delay of time 01-13 month, provisions had not been included in the consultancy agreement to recover the delay charges from the consultancy firm. It was observed that due to abandonment of the activities of the project, the expenditure of Rs. 313.05 million incurred up to end of the year under review including payment of Rs. 214.88 million for the 3 consultancy firms had become fruitless expenditure.
- Already consultancy service had been completed by the Project. According to the condition of the contract, there was no any provision in the consultancy contract of the Asian Development Bank to minimized the liquidate damages. This consultancy contract was based on the time.
- Action should be taken to achieve the expected objectives and carry out the activities without loss to the Government by completing the planned works accurately within the agreed loan period.

### 3.6 Delay in Completion of the Projects

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The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Strategic Cities Urban Development Project		
(i) Eventhough project commenced in 2014 and should be completed 2019, period of the project had been extended by 02 years up to 31 December 2021. According to the development objectives of the project, eventhough benefited public should be 650,000 based on the development activities of the project at the end of year under review, actually it was 400,000 benefited public.	Period of the had been extended from 2019 to 2021 for the initial funds, due to reasons such as planning and acquisition of lands at the initial stage. The main reasons for the decrease in beneficiaries were elimination of the KMTT activities from the project and cancellation of US\$ 92 million.	Benefits should be received to the more beneficiaries as per the plan.
(ii) Eventhough period of the agreement of 04 consultancy contracts valued at Rs. 311 million had been ended, consultancy services had not been completed and action had not been taken to recover the liquidity damages for the non-competed works at the end of year under review.	It could not be commented, due to not indicating the 4 consultancy services certainly.	Action should be taken to recover the liquidity damages.
(b) There were 11 lots of lands with the extent of 111.5 acre proposed to redevelop under the Support to Urban Regeneration Project. According to the overall project implementation plan, out of the 11 plot of lands mentioned above, 4 plot of lands with the extent of 37.5 acre expected to be redeveloped during the year 2020. However, it was not completed by the end of May 2021. The plan should be prepared to complete by 2020 after identifying the proposed resettlement householders in the lands before releasement. However, this had not been done even on the date of 10 June 2021.	Procurement process is being carried out for the development of 3 lands, out of the 10 selected lands. The prepared referred conditions had been submitted to the AIIB. It is expected to be develop the lands under the PPP framework. Further, proposals had been submitted to the AIIB not only for the occupation in the lands, development of empty lands but also increase the efficiency in utilization and development of crow land.	Action should be taken to complete the development of land as per the plan.

### 3.7 The Projects that not Achieved Progress Eventhough the Funds are Released

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Strategic Cities Urban Development Project		
(i) Due to failure of the achievement of the expected targets of the Strategic Cities Urban Development Project by the end of the year under review, out of the agreed loan amount of US\$ 202 million, US\$ 92 million had been cancelled. Therefore, it was observed that the expected benefits could not be achieved under the project.	Out of US\$ 202, US\$ 65 million had been obtained, due to lack of time for the completion of Kandy Muiltly Transport Truminnel (KMTT) However, KMTT is implemented as new project from the 2021.	According to agreement, the management activities should be done to achieve the expected targets as plan.
(ii) Out of total funds of US\$ 202 million equivalent to Rs. 27,507 million allocated by the World Bank for the Project, a sum of US\$ 72.61 million equivalent to Rs. 11,645.64 million of the total allocation representing to 36 per cent had only been utilized as at 31 December 2020 after laps of 6 ½ years from the commencement of the activities of the project.	Not agreed to give comments. For US\$ 147 million, Commencement date of the initial finance was 01 July2014 and additional finance of US\$ 55 million is implemented from 19 October 2016. Due to poor performance of the project in achieving the targets, the reason was decrease in allocation of funds.	Necessary action should be taken for the reasons for the slow physical and financial performance.
(b) Anuradhapura Integrated Urban Development Project		
(i) A sum of Euro 1.27 million equivalent to Rs. 204.25 million had been obtained from the Agence Francaise De Development AFD) for the project in 2018 and any advances had not been obtained in year 2019 and during the year under review. Further, out of the advance obtained, an	Agreed to give comment. However, the project had utilized 87% (Rs. 204.25 million) of the initial advance obtained from the AFD by the end of financial year 2020 and 2 <sup>nd</sup> renewable advance had been obtained by the month of May 2021.	According to the agreement, the project should be completed within the specific period by seeking reasons for the underutilization of funds.

amount of Euro 0.58 million equivalent to Rs. 94.37 million remained at the end of preceding year and out of that an amount of Euro 0.17 million equivalent to Rs. 26.50 million had been remained at the end of the year under review without being utilized.

- (ii) 4 sub contracts valued at Rs. 336.25 million had been awarded in July 2020 to the contractors by the Anuradhapura Integrated Urban Development Project and scheduled to be completed by July 2021. However, physical progress of the such 3 sub projects had remained at lower value of 10 to 30 by the month of March 2021. This situation arise, due to adequate errors remained in the plan and bill of quantities submitted by the contractors. The contractors had submitted additional cost estimates as there were discrepancies in the plans. Therefore, it was further observed that the actual cost of the construction activities will be exceed the estimated cost.
- (iii) Out of the total funds of Euro 52 million equivalent to Rs. 8,354.22 million made by the Lending Agency, Euro 1.84 million equivalent to Rs. 308.84 million representing 3 per cent of total allocation had only been utilized as at 31 December 2020 after laps of 4 years from the commencement of the activities of the Anuradhapura Integrated Urban Development Project.
- Agreed. This issue had been settled by the UDA Architecture and technical staff of the PIU with the assistant of the DDS consultant.
- Action should be taken to recover the additional cost from the persons who prepare the plan and BOQ and supervised and approved.
- Agree with the comment. However, the project had utilized 87% (Rs. 204.25 million) of the initial advance obtained from the AFD by the end of financial year 2020 and 2<sup>nd</sup> renewable advance had been obtained by the month of May 2021.
- According to the agreement, the project should be completed within the specific period by seeking reasons for the underutilization of funds

### 3.8 Other Observations

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Out of the allocations made by the budget for the Sustainable City Development Project and Anuradhapura Integrated Urban Development project, a sum of Rs. 85 million as Rs. 50 million and Rs. 35 million respectively had been utilized for the activities of the Strategic Cities Urban Development Project under F.R 66.	Agreed. Underutilized funds of the AIUDP and Urban Project Preparatory Facility Project had been utilized by us, due to additional funds requirements.	Remedial action should be given by seeking the reasons for poor performance of the Sustainable City Development Project and Anuradhapura Integrated Urban Development project.

### 3.9 Losses and Damages

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The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The reimbursement amount of Strategic Cities Development Project as at May 2021 was US\$ 80.55 million and according to the revised loan agreement, the loan amount that can be obtained further was US\$ 26.71 million. However, It was observed in audit that the project had to be paid US\$ 31.39 million for the contracts which were not completed further by the end of activities of the Project. As a result, it was further observed that the approximately US\$ 4.68 million of additional burden had to be bearded to the Government.	This adjustment made by the World Bank by considering the saving of the remain contacts and expected depreciations of rupees. Therefore, we have adequate funds to complete all committed sub projects.	Action should be taken to carry out the activities within the approved cash limits.
(b) As per the request made by the contract company of the Stadium Gama housing construction project consisted with construction of 1000 proposed houses under Support to Urban Regeneration Project, Rs. 595 million had been paid as advances. Out of the value 60% or Rs. 357,057,000 by rupees and balance amount of 40% or Rs. 238,038,000 by converting the US\$ of 1,352,488.64 based on the fixed exchange rate of Rs.176 as per the	Payments are made as per the agreement entered with the contractor.	Due to payment over the estimated value and value of the contract enter into agreement by calling of tender as per the estimated value of the contract and occurring a loss to the Government, the agreement should be entered as never occur accordingly and procurement Guidelines.

agreement entered on 27 August 2019 had been paid Rs. 250,475,486 from the Dollar Account maintained at the Central Bank under the rate prevailed as at date under the foreign loan. As a result, an over advance payment of Rs. 12,437,486 had been made to the contractor as payment made by converting the rupee value at fixed rate to the dollar and then made payment at the present dollar value again.

#### **4. Good Governness**

##### **4.1 Internal Audit**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Action had not been taken to recruit an Internal Auditor for the Metro Colombo Urban Development Project from the commencement date to 31 December 2020 as per the Financial Regulation 134(3) and Management Audit Circular no. 02/2016 dated 10 June 2016.	Comments not received	Action should be taken to recruit an Internal Auditor.