

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Urban Development and Housing for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 Summary Report containing my comments and observations on the financial statements of the Ministry of Urban Development and Housing was issued to the Chief Accounting Officer on 30 May 2022 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 08 November 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Urban Development and Housing as at 31 December 2021, 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

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 responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer for the Financial Statements

The Chief Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

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 the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events 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 and Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

The following deficiencies were observed in accounting capital expenditure relating to the financial statements.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
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| (a) The Ministry had spent Rs.15,718,376,572 for development activities in the year 2021 through the infrastructure development expenditure subject (2506) under other capital expenditures. But the assets arising out of incurring that expenditure or the work in progress were not included in the financial statements. | In the accounting system introduced by the Treasury, no disclosure facility has been provided in this regard. | A method should be identified to identify the assets or work in progress arising from capital expenditure. |
| (b) According to the vehicle list of the Ministry as of 31 December 2021, there were 10 vehicles owned by the Ministry and their assessed value was Rs. 94,325,880. But in the financial statements as of 31 December 2021, the value of vehicles shown under non-financial assets was recorded as Rs. 47,595,880, which was Rs. 46,730,000 less. | Agreed. corrected by the April 2022 account summaries | Accurate information about the assets held by the Ministry should be disclosed through annual financial statements. |

(c) **Non-maintenance of Registers and Books**

It was observed during audit test checks that the Ministry had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

| | Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|-------|---|---|---|
| (i) | As per Financial Regulation 454(1), it was observed that inventory records and consumables records were not maintained in 11 sections under the Ministry. | Time has been requested to reply. | Maintain inventory books and consumables records as per Financial Regulations |
| (ii) | According to Financial Regulation 214, the Ministry had maintained a register of liabilities, but the register had not been updated by including the details of the liabilities of the development programme. | Agreed . | According to Financial Regulation 214, a register of liabilities should be maintained which includes all liabilities. |
| (iii) | As per 5.4.4 of the Government Procurement Guidelines, the Ministry had not maintained an advance register for commencement of work. | Arrangements are made to maintain a Work Commencement Advance Register. | A Work Commencement Advance Register should be maintained. |

2. Financial Review

2.1 Management of Expenditure

The following observations were made.

| | Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|-----|---|---|--|
| (a) | Allocations of Rs.151, 500,000 in the total of 04 recurrent expenditure items and allocation of Rs.1, 800,000 in the sum of 4 capital expenditure items were completely (100 percent) remain. | Agreed with observation. | As per financial Regulation 50 (ii) it is the responsibility of the Accounting Officer to prepare the estimates as fully and accurately as possible. |

- (b) Although the amount of Rs. 925, 000,000 allocated for the budget subject No. 123-02-07-08-2506-17 has been transferred to the budget subject No.123-02-07-19-2506-17 under F.R.66, that entire amount had not been utilized. Agreed with -do- observation.
- (c) Rs.166,076,000 allocated under 27 recurrent expenditure subjects and Rs.16,116,332,328 allocated under 09 capital expenditure subjects, in the range of 20 percent – 88 percent from the allocations of each budget subject Rs.68,814,855 from the recurrent allocation and Rs.6,486,137,796 from the capital allocation and total Rs.6,554,952,651 were remained. Agreed with -do- observation.

2.2 Incurring of Liabilities and Commitments

The following observations were made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
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| (a) The Ministry had exceeded the allocation limit of Rs.955, 000,000 for 02 expenditure items and incurred liabilities of Rs.24,161,225. | This is a normal process of every year. | Proceed as per paragraph 2 of Public Accounts Circular No. 255/2017 dated 27 April 2017. |
| (b) According to the liabilities register, a total of Rs. 1,177,472,025 were recorded under subject No. 123-02-07-29-2506(11) (Urban Regeneration Project). But there was no record in this regard under the Note III of the financial statements. | Agreed with observation. | Details of all liabilities incurred during the year should be disclosed. |

2.3 Non Compliance with Laws, Rules and Regulations

| Reference to the Laws, Rules and Regulations | Non-Compliance | Comments of the Chief Accounting Officer | Recommendation |
|--|---|--|---|
| Financial Regulation of the Democratic Socialist Republic of Sri Lanka F.R.101(1) and 104(4) | Within three months from the occurrence of the damage a full inspection should be done, and the persons responsible should be determined and the damage should be charged. However, the vehicle number PH-0894 was completely damaged due to the accident on 06 September 2020 the worth of the damage Rs. 6,390,000, but the damage could not be recovered. Although 1 ½ years have passed since the accident, According to F.R, the final inspection report was also not submitted. | Once the full inspection report is received, the recommendations will be acted upon. | It should be done according to the Financial regulations. |

3. Operating Review

3.1 Foreign Aid Projects

The following observations were made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
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| (a) Metro Colombo Urban Development Project had started on 10 July 2012 and proposed to be completed on 30 June 2017 with the aims of reducing floods in the catchment area of Colombo Water Basin, strengthening the capacity of the local Authorities in Colombo metropolitan area, and embellishment of Colombo city. The project period had extended to 30 June 2022. 90 percent of the total amount of Rs.27, 890.22 million equal to USD.213 million that was to be provided by the lending agency for the project, USD 191.68 | Agreed. Consultants had claimed consultancy fees for all work carried out including payments to extra personnel. The matter was finally settled through the arbitration process and payment had to be made as per the arbitral award. | That the money allocated for the project should be used with maximum efficiency. |

million i.e. Rs. 31,079 million and Rs, 8,368 million equivalent to USD.69.2 million, which represents 60.8 percent of the total allocation of Rs.14, 141.52 million provided under the government's provisions, had been utilized by 31 December 2021.

The Project had awarded 02 contracts of consultancy service for design and construction supervision of pedestrian overhead bridge at Bambalapitiya and Kollupitiya to a consultancy firm of a cost of Rs 27.22 million in December 2013 and agreed to complete the design works within 10 weeks. Later Project had abounded those works and informed the consultancy firm on 23 May 2016. However, a sum of Rs 21.79 million had to be paid to the consultancy firm as consultancy fees, due to the failure of inform the abandonment division in timely manner to the consultant with the instructions of the Arbitral Tribunal.

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| (b) | The urban planning project was to be completed in 36 months with a total funding of USD 5.27 million equivalent to Rs.1, 064.79 million allocated by the lending agency. After 33 months from the date of commencement of the project i.e. as on 31 December 2021, only USD 2.07 million equivalent to Rs. 406.27 million representing 38 percent of the total allocation had been utilized for project activities. | Agree. Due to the covid epidemic, the operational work of the project had to be stopped, which was the main reason. | That the money allocated for the project should be used with maximum efficiency. |
| (c) | According to the letter of the Director General of the Department of Foreign Resources dated 18 August 2020 and bearing number ER/AB/US/01(vol-i), 3 sub-projects of the above project had suspended from 12 October 2020. Till that date for those projects Rs. 413.36 million had been spent and by 20 June 2022, due to the non-implementation of those projects, the incurred expenditure had become an idle expenditure. | As the project had reactivated, it was decided to proceed with the new plan utilizing the work already done by the previous consultants. | That corrective action should be taken to implement the sub-projects immediately. |

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| (d) | The agreed loan amount for the Support to Urban Regeneration Project, which had scheduled to start on 22 July 2019 and to be completed by 30 June 2023, was USD 200 million. As of 31 December 2021, only USD 16.87 million had spent. According to the loan agreement, the project had to pay an annual commitment fee of 0.25 percent to the lending bank on the unused loan amount. As of 31 December 2021, USD 0.461 million in commitment fees had to paid due to poor performance. | As the loan amount is released in installments depending on the progress of the project, it is inevitable to have to pay commitment charges on the unreleased loan amount at the end of the year. | That the work of the project should be done within the stipulated time and measures should be taken to minimize the loss to the country. |
| (e) | According to the overall project implementation plan mentioned above, 04 land plots of 37.5 acres were to be developed in the year 2021, but that role had not done. | The TOR prepared for engaging the services of a consultant shall receive the recommendation of the Ministry and the approval of the AIIB Bank. | That land development activities should be carried out according to the implementation plans. |
| (f) | The contract value of Obeysekharapura housing project is Rs. 1,723,347,855 initiated on 20 April 2020, was scheduled to be completed on 21 October 2022. However, as per clause 15.2.2 of the contract agreement, on 29 March 2022, the Ministry had canceled the contract agreement due to insufficient performance. However, from the Mobilization advance amount given to the contractor, Rs. 172,334,785 had not been recovered till 06 October 2022. | Proceedings had initiated to collect the advance security. Re-awarding of the contract is also underway. | That arrangements should be made to recover the Mobilization advance as soon as possible |
| (g) | A contractor was selected for Rs.3, 890 million rupees on 31 December 2020 for the construction of 700 housing units in the Applewatta housing construction project, but the consultants for the project were not selected until 26 January 2021. Therefore, the basic important works of the construction had to carry out without the supervision of the consultants. According to the performance report of the technical department of the project, the contractor had | Corrective action is in progress. | That proper steps should be taken as per the contractual agreement. |

to reconstruct some works. Due to this, the actual progress in the performance of the construction works was only 22 percent compared to the planned 35 percent progress by 31 December 2021.

- (h) During the procurement process of selecting a contractor for the construction of houses in the above project, the bid opening committee and the evaluation committee selected a bidder who submitted a higher bid without considering the cash discount of Rs. 43,253,577 given by another bidder. A difference of Rs.10, 931,910 was observed between the offered contract price and the discounted price. The procurement committee had not investigated the reasons for not paying attention to this.
- The bid opening committee has not considered the discount offered by one of the bidders. The National Procurement Agency and AIIB Bank have been consulted and acted accordingly.
- That the provisions contained in the Government Procurement Guidelines should be followed.
- (i) According to the Housing Construction Procurement Timeline of the Ferguson Housing Project, the procurement of the project was scheduled to commence on 21 April, 2019 and be completed on 15 August 2019, within 4 months. But 21 months had passed since the bid was invited to award the bid. Also, the company that was awarded the construction work was a company banned by the World Bank for a period of 09 months from 05 June 2019 to March 2020, and during that banned period, the company formed a new joint venture company with another Chinese company without registration and submitted bids for this contract. But the contract was awarded to the concerned company without considering the registration. Due to the delay in starting the construction work due to the need to register the company as a legal company after the award of the contract and the delay in submitting the advance guarantee, As on 31 December 2021, the target financial and physical performance Rs. 400 million and 12.2 percent were not reached and the financial and physical performance was only 0 percent and 6.5 percent respectively.
- The procuring agency has been clearly instructed to submit the revised procurement schedule for the project. Due to the covid pandemic in the country, the setback was due to difficulties in getting raw materials and labour.
- That procurement should be done according to the schedule.

- (j) The Environmental Advisory Committee permission for 03 housing projects in the above project, the Condominium Management Permission (CMA) to be obtained from the Condominium Management Authority for 05 housing projects and the building permission to be obtained from the Urban Development Authority for 04 housing projects were not received until 30 August 2022.
- According to the contract agreement, the respective contractors have to obtain the licenses to be obtained from various government agencies.
- That the relevant approvals should be obtained promptly.
- (k) The Strategic City Development Project, which started on 5 May 2014 and was proposed to be completed on 31 December 2019 i.e. in 5 ½ years, but completed after 7 ½ years. But at the end of the year under review, only 65.6 percent of the total fund of Rs. 30,300 million provided by the agency, i.e. USD.72.14 million had been used. Although due to not being able to reach the expected goals, the USD allocated for the construction of the Kandy Multimodal Transport Terminal (KMTT) was withdrawn. 65 million dollars and US. 27 million dollars (total US\$ 92 million) had been canceled as of December 31, 2021. Accordingly, the audit revealed that it was not possible to get the expected benefits from the project.
- Agree. Existing conditions have led to reduced utilization of funds.
- That the money allocated for the project should be used with maximum efficiency.
- (l) Under the above project, the contract for the renovation and improvement of 3.39 kilometers of Dharmashoka Mawatha in Kandy was awarded on 07 July 2016 for Rs.796.4 million and the construction work was supposed to be completed on 07 July 2018. However, it was stopped midway on 14 June 2019 and an amount of Rs. 405.7 million had been paid for the construction work completed till then. The remaining construction work was awarded to two other contractors for the amounts of Rs.355.57 million and Rs. 156.62 million. Accordingly, the final total value of this activity was Rs. 917.93 million. Therefore,
- Agree.
- That consistent and effective contract management system should be implemented to achieve the project objective according to the overall physical plan of the project.

due to midway abandonment of the contract, apart from the project Rs. 121.5 million had to be incurred.

Under the above project, the contract for the extension of 4250 meters of Galle Moragoda main canal and the reconstruction of temple side canal was awarded on 06 March 2017. Its value was Rs. 844.9 million. Although this was planned to be completed on 7 September 2019, the contract was terminated on 11 April 2019. Although the total duration of the project was targeted for 900 days, 20% of the work was completed in 780 days. Rs. 329.1 million had been paid for that. The total cost including Rs. 462.62 million for the restoration of only 1,850 meters of the remaining unfinished part of the canal was Rs.736.03 million. Accordingly, due to the incompleteness of the contract work, the public was not able to get its full benefits. But the cost incurred for land acquisition for the entire length of the main canal was Rs. 397.6 million.

Agree.

That an effective project management system should be implemented.

(m) The contract for the construction of the warehouse and related facilities of the Galle Municipality was awarded on 24 April 2019 for Rs.135.65 million. The construction period was 270 days and although an extension of another 113 days was granted, physical progress was only 90% when the contract was closed on 23 May 2022.

Agree.

That consistent and effective contract management system should be implemented to achieve the project objective according to the overall physical plan of the project.

(n) According to the loan agreement of the Anuradhapura Integrated Urban Development Project, the procurement process of 12 packages worth Rs. 6,562.68 million was to be completed by 31 December 2021. But due to the delay in the detailed engineering plans of the

Agree.

That consistent and effective contract management system should be implemented to achieve the

- consultancy work, the procurement process of 08 packages worth Rs. 5,925.19 million was not implemented. Therefore, the credit facility had to be extended till 30 September 2023.
- project objective according to the overall physical plan of the project.
- (o) The engineering estimate dated 03 November 2021 for the contract to develop the Anuradhapura Multimodal Transport Center in the above project was Rs. 920.44 million and the value submitted by the contractor on 29 October 2021 was Rs. 1,176.12 million. It was 30.2 percent higher than the engineering estimate. Rate analysis was not done along with engineering estimate and contract quantities. The selected contractor's quotations ranged from 1 - 93 percent negative values and 1 - 4483 percent positive values ranged from 1 - 4483 percent.
- Agree. The Ministry Procurement Committee later asked to revise the estimate prepared by the consultancy. The revised estimate on 17 December 2021 was Rs.1, 110.51 million. Then the value changed only 6.2 percent.
- That the guidelines of the Code of Procurement Guidelines should be followed.
- (p) In addition, the above project had entered into an agreement with SCE, Group hit – Green Tech Consultants joint venture on 29 August 2017 for the procurement of detailed design study consultancy services for Rs.212.66 million (€1.18 million). According to the agreement, the company has to submit the full consultation report on 12 May 2019. But it was not submitted on that date and after that four extensions were given. Under this contract, 18 reports were agreed to be submitted on the due dates and 17 reports were not submitted on the due dates.
- Therefore, as per clause 46.2 of the agreement, late fee of Rs.59, 301,465 should be recovered from the said institution but was not recovered till 31 December 2021.
- Agree.
- That consistent and effective contract management system should be implemented to achieve the project objective according to the overall physical plan of the project.
- (q) An additional consultancy task was given in April 2018 to submit 04 feasibility study reports for the wastewater management component of the above Anuradhapura Integrated Urban Development Project. Due to this, the value of the contract (Euro
- Agree.
- Work should be done to achieve the project objectives.

106,080 and Rs. 89,622,500 +PS50M) was increased to Rs. 149.63 million. Although the consulting firm had submitted the final feasibility report to the National Water Supply and Drainage Board on 24 July 2020, the work related to that report had not been started until now.

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| (r) | Also, under the same project, the contract for the construction of Railway Plaza and renovation of Sinha Kanuwa Roundabout was awarded on 06 July 2020 at a value of Rs.122.62 million and it was planned to be completed on 21 July 2021. The contract period was extended 3 times by 310 days till 14 March 2022. However, the total expenditure incurred till the end of the year under review was Rs.23.79 million but the physical progress as on that date was only 10 percent. | agree Due to the current situation in the country. | That consistent and effective contract management system should be implemented to achieve the project objective according to the overall physical plan of the project. |
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3.2 Management Weaknesses

The following observations are made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
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| (a) According to the instructions given by the Attorney General on 28 October 2021 regarding the financial fraud that occurred during the takeover of the Real Estate Exchange (Private) Company Limited by the Urban Settlement Development Authority. It was stated that the relevant line ministry should take action under Finance Regulation 103 (Chapter 11) to consider whether legal proceedings can be assigned against the relevant persons in connection with the loss, the line ministry under that authority, the Ministry of Urban Development and Housing, had not taken any action in this regard even by June 2022. | Answers not given | That this should be resolved with the intervention of the line ministry. |