

## **Head 123 - Ministry of Urban Development, Construction and Housing - 2024**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ministry of Urban Development, construction and Housing for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 constructions and Housing was issued to the Chief Accounting Officer on 30 May 2025 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 30 July 2025 in terms of Section 11(2) of the National Audit Act. 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 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, Construction and Housing as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation of the financial statements set out in Note 1.

#### **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 responsibilities 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 Emphasis of matter - Basis of preparation of financial statements**

The attention is drawn to Note 1 to the financial statements, which describes the basis of preparation of the financial statements. The financial statements have been prepared for the use of the treasury and Parliament of the Ministry of Urban Development, construction and Housing in accordance with Government Financial Regulations 150 and 151 and Public Accounts guideline No. 6/2024 dated 16 December 2024, as amended on 21 February 2025. Accordingly, these financial statements may not be suitable for other purposes. My report is intended only for the use of the Ministry, the Treasury and the Parliament of Sri Lanka. My opinion on this matter is not modified.

#### **1.4 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 Government Financial Regulations 150 and 151 and Public Accounts Guideline No. 6/2024 dated 16 December 2024 as amended on 21 February 2025 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.

#### **1.5 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.

## **1.6 Comments on Financial Statements**

### **1.6.1 Accounting Deficiencies**

#### **(a) Capital expenditure**

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

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) Expenditure had been understated by Rs.2.71 million which was incurred for subject number 123-2-7-29-2104/12. (support to the Urban Regeneration Project)	The difference was due to the expenditure of Rs.2.76 million incurred through advance receipts had not been reported as treasury expenditure in the year 2024 and Rs.4.53 million relating to the year 2023 had been adjusted to the project accounts in the year 2024.	The correct expenditure should be accounted relevant to the year.
(ii) If expenditure had been incurred exceeding the appropriate limit without obtaining authority in any financial year, that expenditure should be considered as an unauthorized expenditure and a resolution should be passed in Parliament before 31 December of the following year to settle it in accordance with Financial Regulation 69 (1). But, the Ministry had taken action to transfer Rs.1,454.9 million from the amount allocated to Expenditure Subject No. 123-02-21-09-2104(Colombo solid waste management project) in 2024 under Financial Regulation 66 to cover the expenditure of Rs.1,454.9 million incurred by the Sri Lanka Land Development Corporation in excess of the limit of 04 expenditure subjects to settle the expenditure in the year 2023 contrary to the above instructions.	The necessary provisions had been made under Financial Regulation 66 and action had been taken to pay the said amount on the instructions received regarding the request made to the Ministry of Finance letter dated 10 December 2024.	Action should be taken as per the Financial regulations with regarding the expenditure exceeding the estimated appropriation limit.

## **(b) Property, Plant and Equipment**

Following observations are made in accounting of property plant and equipment.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) Although the total asset purchases and transfers during the year had been Rs.19,599.2 million according to the Statement of Non-Financial Assets (BOS), but the cost of acquiring financial assets according to the Statement of Financial Performance had been shown as Rs. 20,107.34 million, a difference of Rs. 508.14 million had been observed.	Assets acquired by the Ministry and paid by the Ministry are shown as the value of purchasing of assets during the year according to the Non-Financial Assets Statement submitted by the Treasury. Assets generated by payments by the Ministry and assets generated by expenses incurred by other ministries on behalf of the ministry are included as non-financial assets in the Statement of Financial Performance.	Accounts, information and documents should be maintained to identify non-financial assets accurately.
(ii) Only Rs. 697.07 million and Rs.1,187.28 million had been included under work in progress in the non-financial assets report incurred in 2023 and 2024 respectively, for the construction of the Oliyamulla and Kolonnawa water treatment plants projects initiated by the Sri Lanka Lands and Land Development Corporation in 2018 with the financial provisions of the Ministry. But the ministry had not taken actions to identify and account for that value due to the non-including of the total cost incurred by the government for those projects from the beginning.	No expenditure had been incurred before 2022 since no financial allocation has been made for these projects under this Ministry before 2022.	Accounts, information and documents should be maintained to identify non-financial assets accurately.

**(c) Advance accounts**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Although the ministry had deducted mobilization advance of Rs.1.75 million for the year 2024 which had been paid for the construction of the Horana Pola (Phase 4) project on 05 February 2024, Rent and work advance account and the Rent and Work Advance Reserve Account had been overstated by Rs. 1.75 million due to non-accounting of that amount.	That amount will be corrected in 2025.	Advances should be accounted correctly.

**(c) Lack of audit evidence**

Audit evidence had not been presented with regarding the following transactions.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) A sum of Rs. 15,628.18 million had been debited to the Ministry's expenditure head under Financial Regulation 208 which incurred by other ministries and departments for the acquisition of capital assets (2104) on behalf of the Ministry of Urban Development, Construction and Housing. That value had been 41 percent of the total expenditure of the ministry. However, that expenditure could not be verified by the summary reports submitted to the audit by the Ministry and it was also impossible to identify the assets generated by it.	Expenditures have been incurred under Financial Regulation 208 for the Kandurata Decade Development Project and the Resettlement Project. The relevant expenditure has been confirmed by reports. Expenditure reports submitted by the District Secretariats for resettlement have also been submitted. Confirmations have also been submitted regarding the expenditure related to other projects indicated in the Financial Regulation 208 of the accounts.	Timely and accurate data and information required for audit purposes should be submitted promptly and within the relevant period.

(ii)	<p>Rs. 125,856.93 million assets had been added to the opening asset balance as at 01 January 2024 and another assets valued at Rs.8,648.75 million had been transferred. But accuracy of those values could not be verified during the audit due to non- submission of valuation reports that had been used to value those assets when they had been taken into the ministry's accounts.</p>	<p>Details had been submitted to confirm the amounts added and transferred to the opening balance in the year 2024.</p>	<p>Timely and accurate data and information required for audit purposes should be submitted promptly and within the relevant period.</p>
(iii)	<p>Assets of Rs.27,242.2 million had been added during the year under 03 asset categories and assets of Rs.15,800.93 million under 08 asset categories had been completely removed from the non-financial asset statement. But, the accuracy of those asset values could not be verified during the audit.</p>	<p>Detailed schedules relating to those assets have been submitted with the response.</p>	<p>Timely and accurate data and information required for audit purposes should be submitted promptly and within the relevant period.</p>
(iv)	<p>The asset registers maintained by each division had not been submitted for audit to verify the CIGAS asset list submitted by the Ministry to confirm the property, plant and equipment balance of Rs.47, 427.18 million as at 31 December 2024.</p>	<p>Non-financial assets schedules have been submitted with the response.</p>	<p>Asset records maintained by each division should be submitted for audit.</p>
(v)	<p>Although records of liabilities should be maintained to ensure that cash is available and that cash is received regularly according to Financial Regulation 214, liability records had not been maintained for the commitment and liabilities of Rs.50 million presented under 4 subjects in the annexure to the Financial Statement (iii) Report of commitment and Liabilities.</p>	<p>A copy of the liability records related to the Housing Division of the Ministry has been attached.</p>	<p>Timely and accurate data and information required for audit purposes should be submitted promptly and within the relevant period.</p>

## 2. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

Reference to the previous year Report	Recommendation	Reference in this report
Paragraph 2.1 of the Summary Audit Report dated 31 May 2024	The necessary provisions should be accurately forecasted.	3.2

## 3. Financial Review

### 3.1 Management of Imprest

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the transfer of allocation under Financial Regulation 66 should be made before 30 November of the year, allocation of Rs.119 million had been transferred on 31 December 2024 under Financial Regulation 66 for the 02 expenditure subjects 123-2-21-14-2509 and 123-2-21-15-2509. Therefore, the entire transferred allocation amount remained due to non-receipt of imprest.	The new expenditure subjects had been established and discussed with the National Budget Department to reimburse the bills of two projects carried out under the Sri Lanka Land Development Corporation. Although the necessary additional allocations have been transferred, those provisions have not been utilized due to insufficient cash to make those payments in the year 2024.	Action should be taken to perform functions efficiently and effectively by transferring funds in accordance with the relevant regulations within the stipulated time.

### **3.2 Management of Expenditure**

The following over- and under-provisions had been made in violation of Financial Regulation 50 of the Democratic Socialist Republic of Sri Lanka.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Allocated amounts of Rs. 4.8 million for 02 recurrent expenditure subjects and Rs.3,033 million for 11 capital expenditure subjects had been saved fully due to non-identifying the need.	Those allocations had been remained due to the lack of requirements during the year, the lack of approval from the Ministry of Finance, and non-implementation of those projects due to the lack of preliminary work to implement certain projects.	Actions should be made to utilize provisions and funds efficiently and effectively by preparing estimates as accurately as possible.
(b) Total of Rs.11,372.57 million had been remained consisting of Rs.296.34 million out of Rs.706.34 million allocated to 27 recurrent expenditure subjects and Rs.11,076.23 million out of Rs.36,443.26 million allocated to 34 capital expenditure subjects. The percentage of these savings ranged from 10 percent to 99 percent.	Those allocations had been remained on non-achieving the progress of projects due to non-occurring of expected expenses and the reasons beyond the control of the Ministry.	Actions should be made to utilize provisions and funds efficiently and effectively by preparing estimates as accurately as possible.
(c) The entire provision of Rs.46.1 million allocated to 04 expenditure subjects and more than 50 percent of the amount allocated to 06 expenditure subjects had also been transferred to other expenditure subjects under Financial Regulation 66 due to allocation of funds without properly identifying the need.	The remained allocations had been transferred to the necessary expenditure items due to reasons such as inability to incur expenditure based on the decision taken by the Treasury, non-incurrence of relevant expenditure due to delay in receiving Indian aid, failure to incur expected expenditure, failure to achieve the expected physical progress of the projects, and transfer of allocations to the correct expenditure items based on the instructions of the Ministry of Finance.	Actions should be made to utilize provisions and funds efficiently and effectively by preparing estimates as accurately as possible.

(d) Provisions of Rs.1, 836.4 million had been transferred under Financial Regulation 66 to 11 expenditure subjects which had not been allocated provisions in the 2024 Budget Estimate. Although provisions were not allocated for projects that were being implemented in 2023 due to uncertainty about whether they would continue in 2024, additional provisions had to be made as those projects resumed in 2024. Furthermore, the funds allocated to the wrong expenditure subjects had to be transferred to the correct expenditure subjects. Actions should be made to utilize provisions and funds efficiently and effectively by preparing estimates as accurately as possible.

(e) An amount of Rs. 1,014.17 million, which is more than the amount allocated to the 04 expenditure subjects, had been transferred through Financial Regulation 66 due to the insufficient amount of Rs.1,008.5 million allocated to 04 expenditure subjects in the annual budget estimate. Additional provisions had to be made for those 4 expenditure item as it was impossible to manage essential expenses within the allocated provisions during the year. Actions should be made to utilize provisions and funds efficiently and effectively by preparing estimates as accurately as possible.

### 3.3 Incurring of Liabilities and Commitments

Following observations are made with regarding to Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) No commitments or liabilities should be incurred beyond the annual budget estimate limit and no commitments should be entered into with the expectation of obtaining allocations in the future in accordance with paragraph 12.1 of National Budget Circular No. 01/2024 dated 10 January 2024. But, the Ministry had incurred a total of Rs.20.62 million liabilities, exceeding the amount of Rs.236.3 million allocated for 03 expenditure subjects.	All liabilities identified in accordance with the Treasury Circular have been reported as liabilities as at 31 January 2024. Those liabilities have been reported in the accounting records.	Commitments and liabilities should not be incurred beyond the limits of the allocation.

(b) The balance of Rs.1,212.21 million receivable from the Ministry under 2 expenditure items according to the Annual Accounts of the Sri Lanka Land Development Corporation 2024, had not been included in the Statement of Liabilities and Commitments of Ministry. No liabilities had been made as at 31 December 2024 for projects carried out through the Sri Lanka Land Development Corporation. Details of all commitments and liabilities incurred during the year should be submitted with the annual financial statements.

(c) Details of the liabilities valued at Rs. 312.03 million incurred by the Ministry under 09 expenditure subjects for the year under review had not been included in the Statement of commitments and Liabilities . All liabilities had been reported as at 31 January 2025 in accordance with the instructions of Public Accounts Guideline No. 05/2024 issued by the Treasury regarding the preparation of final accounts. Details of all commitments and liabilities incurred during the year should be submitted with the annual financial statements.

(d) Although total balance of commitments and liabilities related to the Ministry of Urban Development, Construction and Housing was Rs.1,044.59 million according to the Statement of Commitments and Liabilities obtained from the General Treasury as at 31 December 2024, the total balance of the Statement of Commitments and Liabilities presented with the financial statements was Rs.1,094.57 million. The reasons for the difference of Rs.49.98 million had not been explained. The Commitments and liabilities report issued by the Treasury for the year 2024 had been shown in the accounting records, and the value of other Commitments and liabilities had not been shown in the Statement. Commitments and liabilities should be accurately recorded in financial statements.

### **3.4 Assurances to be made by the Chief Accounting Officer**

Although the Chief Accounting Officer was required to provide assurances regarding the following matters in accordance with the provisions of Section 38 of the National Audit Act, No. 19 of 2018, action had not been taken accordingly.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The Chief Accounting Officer should ensure that an effective internal control system had been developed and maintained for the financial control of the	The Ministry delegates authority to officers under Financial Regulations 135, 136 and 137 to conduct the financial activities of the Ministry and continuously monitors the implementation of	Necessary reviews should be conducted and reported to the Auditor General in accordance with the provisions of Section 38 of the

Ministry. The effectiveness of that system should be reviewed time to time and necessary changes should be made to make the system effectively and these reviews should be done in writing and a copy should be submitted to the Auditor General. But, such review statements had not been submitted to the audit.

those activities for an effective internal control system in the Ministry. Reports on the delegation of powers have been submitted to the audit and the annual audit and management committee meetings have been held to identify existing internal control weaknesses, actions had been taken to correct them by monitoring the actions which should be taken for that.

National Audit Act, No. 19 of 2018.

(b) Although the Chief Accounting Officer was required to ensure that all audit queries are answered within the specified time frames as required by the Auditor General, answers had not been submitted for audit quarries as per paragraph 4.9 of the report.

Projects implemented by the Ministry and lot of activities are carried out through institutions under the Ministry. The Ministry has also recognized that it will take some time to obtain basic information, study and preparing answers relating to audit quarries of those projects and institutions. Action has been made to minimize that situation up to now.

Action should be taken in accordance with the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

### 3.5 Informal transactions

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) No. KL-9507 vehicle belongs to the Ministry had been sent to the agency for repairs in the year 2021 and the agent had issued an invoice on 27 September 2023, after completing the repair. However, the relevant expenditure had not been incurred in 2023 and the Ministry had made payments for the invoice resubmitted by that institution on 13 March 2024. Accordingly, it had	Although approval was received in 2021 to carry out this work, since an invoice has been reissued for the year 2024 after the work was completed, it is not necessary to obtain approval under Financial Regulation 115 to pay for that invoice.	Approval should be obtained in accordance with Financial Regulation 115 when making payments in 2024 for a commitment made in 2021 and a repair carried out in 2023.

been observed that Rs.2.5 million had been paid on 24 June 2024 without the approval of Financial Regulation 115 for a commitment made in the year 2021 and a repair carried out in the year 2023.

(b) Prior approval of the Standing Technical Committee (STC) had not been obtained in accordance with 8.13.4 of the Procurement Guidelines regarding the variation of the total amount of Rs.4.70 million related to the contract for the construction of houses and other buildings under the Venerable Maduluwawe Sobitha Theragama Housing Project in Anuradhapura Mahawilachchiya and proper approval had not been obtained for the above mentioned change in scope.

(e) A sum of Rs.2,924.29 million had been provided by the General Treasury for the works carried out by the Sri Lanka Land Development Corporation on the provisions of the General Treasury in the year 2023 for the maintenance of canals, tanks and ponds in the city of Colombo, flood mitigation and wetland management projects, and the bills had been submitted with the new rates approved by the Ministry and overhead cost of 17 percent thereon. Since the cost of

A variation of Rs.4.70 million was not identified in that project. The variation identified as a result of the change in scope was Rs.3 million at the time of IPC 11 payments. That variation was less than 10 percent of the total cost. Therefor it is not necessary to obtain prior approval from the Standing Technical Committee (STC) before approving price variations.

Prior approval of the Standing Technical Committee (STC) should be obtained and proper approval should also be obtained for any change in the above scope in accordance with 8.13.4 of the Procurement Guidelines.

An overhead of 17 percent had been approved in addition to the Basic Rate approved by the Secretary to the Ministry as per Cabinet approval No. ፭/19/2133/116/078 dated 21 August 2019. Accordingly, no excess profits were made by that institution since the funds were received from the treasury for projects carried out by the Sri Lanka Land Development Corporation in 2023.

Action should be taken to introduce appropriate rates for the work carried out by the Corporation.

25 activities, which accounted for 75 percent of this income, or Rs. 2,211 million, was Rs. 831 million, a profit of 166 percent, or over Rs. 1,380 million, was earned on the cost due to the bills prepared for these activities at the new rates. Accordingly, it was observed that the new rates approved by the Ministry were not realistic.

### **3.6 Fraudulent transactions**

The details of a fraudulent transaction observed during a sample audit have been given below.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>The Assistant Secretary, who was appointed to act as Senior Assistant Secretary (Administration) on a full-time basis for the period from 21 October 2021 to 31 December 2023, had also been appointed to act as the State Ministry of Coastal Conservation and Lowland Development. He had claimed Rs.0.9 million as fuel expenses for the double cab vehicle that was assigned to him for the period from January 2022 to September 2023. However, the Ministry had paid Rs.0.9 million on 20 October 2023, without any request made by this officer for the use of an official vehicle, or any approval given by the Secretary of the Ministry to pay and reimburse fuel from personal funds, or any confirmation that his personal funds were spent on fuel for the double cab vehicle during the relevant period. Furthermore, this officer, who is currently attached as the Senior Assistant Secretary (Transport and Maintenance) to the Ministry of</p>	<p>In accordance with Section 29, Part II of the Establishments Code, the Additional Secretary (Corporate Affairs) has been appointed on 20 May 2025 and instructed to conduct a preliminary investigation and submit a report. Further action will be taken in accordance with the recommendations of the relevant investigation report.</p>	<p>Further action should be taken without delay based on the recommendations of the preliminary investigation report and formal investigations.</p>

Urban Development, Construction and Housing, had also been appointed as the Acting General Manager of the Condominium Management Authority from 23 January 2023 and had also used the pool vehicles of the Condominium Management Authority from 27 January 2023 to 18 November 2024, contrary to paragraph 05 of Public Administration Circular No. 13/2008. The authority had spent Rs.2.63 million on fuel for him.

#### **4 . Operating Review**

##### **4. 1 Failure to perform duties**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>After the end of the war in 2009, the project of providing houses/land to displaced families by the war in the North and East had been initiated in 2016 and since the Ministry had spent Rs.29,813 million on the construction of 36,736 houses in 08 districts of the North and East Provinces up to 31 December 2024. The following observations are made in this regard.</p>		
<p>(a) The construction of 207 houses which had been commenced during the year under review, 102 houses completed up to the roof level, which had been commenced prior to the year under review, 12 houses completed up to the wall level and one house for which only the foundation was constructed had not been completed by the end of the year under review.</p>	<p>A Cabinet memorandum had been submitted to increase the grant provided to beneficiaries due to the increasing of the unit cost of house. Instructions have been given to complete the construction of houses that have not been completed within this year and to take legal action against beneficiaries who do not carry out the work as per the entered agreements with the Divisional Secretaries.</p>	<p>Further action should be taken without delay with regarding to the houses which has not been completed construction work within the stipulated time frame.</p>

(b) Although 15 years had passed since the end of the war by the end of the year under review, those displaced persons by the war were still being identified and resettlement activities had not been completed. All welfare centers have been closed and resettlement activities have been completed now. However, the housing needs of displaced families should be resolved who are already living in temporary houses. Lands have already been released in the Northern and Eastern provinces and 234.83 acres have been released in the Jaffna district in 2024.

Review the methodology for identifying displaced persons and those activities should be completed and the resettlement activities should be completed expeditiously.

#### **4.2 Failure to achieve the desired level of completion**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>Although the project of constructing concrete panel houses for families affected by the conflicts in the Northern and Eastern provinces of Sri Lanka had to commence on 20 February 2020 and to be completed on 12 August 2020. However, extensions had been granted in four times up to 30 November 2022.</p> <p>Therefore, the Ministry had terminated the contract agreement on 15 February 2023 and had encashed the performance security of Rs.19.2 million and deposited in the general deposit account due to non-completing the project properly. The following points had been observed in this regard.</p>		

(a) In terms of clause 15.2 (C) of the contract agreement, the remaining amount after rectifying the defects should be credited to the Consolidated Fund and Completing the deficiencies, the loss on delay in completion of the work and the money needed to cover other expenses incurred should have been retained in accordance with clause 15.4. But, a sum of Rs.9.18 million of that amounts had been repaid to the contractor on 31 May 2024.

The amount to be recovered from the Performance Guarantee had been deducted and the remaining amount had been paid to the contractor in accordance with clause 15.4 of the Contract Agreement and according to the certificate issued by the National Building Research Organization (NBRO) on 29 May 2024 ,who was the consultant of the project and in accordance with the Guidelines for Contract Management No. 12

Action should be taken in terms of the contract agreement and immediate action should be taken with regarding deviations from the terms of the agreement.

(b) Although 2 years had passed since the contract agreement was terminated, the Ministry had not taken necessary actions to blacklist the contracting entity in accordance with Financial Regulation 705(b).

A committee has been appointed to study blacklisting of that institution in accordance with the Procurement Guidelines 2006. Future action will be taken based on the recommendations of that committee.

Necessary actions should be taken without delay in accordance with financial regulations.

### 4.3 Non-achievement of expected Outcome

The following observations are made.

	<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a)	The project valued at Rs.180.64 million for construction of Minuwangoda Shopping Complex had been awarded to 03 contractors and it had been implemented in 3 phases during the period of 2018-2024. The following matters had been observed in this regard.		
(i)	The construction of this 3-storey public commercial complex building in 3 phases was contentious in audit.	In the first phase, the superstructure of the entire building and the first floor up to the slab level were	Action should be taken according to the basic plans and feasibility study reports.

completed, in the second phase, the construction of the remaining two floors was completed, and in the third phase, the elevator and all other minor construction works were completed, and the entire project was handed over to the Municipal Council.

(ii) The first phase of this project, which had an estimated cost of Rs.88.96 million had been supposed to be completed on 28 December 2019. But Rs.8.89 million had been charged from contractor as a delay penalty due to delay of 556 days. However, according to the decision of the contractor's complaint to the Dispute Arbitration Board (DAB), the contractor had to pay Rs.12.86 million as agreed by both parties. The Ministry had to pay the above amount due to the failure to submit reasons of justifying the failure of Ministry to grant approval for the extension approved by the consultant of the project. But the Ministry had not taken any action against the officers who are responsible for it.

(iii) The second phase of the project valued at Rs.17.96 million had been completed on 19 December 2021 and handed over to the Minuwangoda Urban Council on 01 April 2022 without completing installation of roller doors to the shops, obtaining water facilities, obtaining electricity facilities, developing the drainage system and the land surrounding of the building.

Although the Ministry provided all the justifications in this regard, the Dispute Arbitration Board has given the relevant decision in accordance with the contract agreement.

Contract litigation and arbitration proceedings should be conducted efficiently and effectively and immediate action should be taken against the relevant officers for the losses and damages caused to the Ministry.

Several basic needs, including swing doors, were completed by Minuwangoda Urban Council funds after obtaining the relevant approvals due to the economic crisis prevailing in the country at that time.

Action should be taken in accordance with the agreement.

(iv) A contract valued at Rs.17.96 million had been signed for the installation of an electric lift and the construction of a disabled toilet for the building under Phase 3 of this project. Although the contract was supposed to be completed on 6 July 2024 it had been completed on 30 September 2024 after a delay of 86 days. Action had not been taken to deduct Rs. 0.9 million as liquidated damages from the contractor due to the extension of the time for the delay had not been approved by the Head of the institution in accordance with condition number 49.1 of the agreement. Furthermore, the electric lift, which had been completed on 30 September 2024 at a cost of Rs.9.61 million (excluding VAT), remained idle until 31 December 2024.

Time had been given to complete the construction of Minuwangoda Shopping Complex - Phase 3 until 6 July 2024. However, the Director General (Urban Development) had extended the contract completion period until 30 September 2024, on request made due to the inability to complete the project on that date by the contractor and the recommendations of the consulting agency. There is no possibility to charge liquidated damages as per the agreement due to handing over its work after completing by contractor on 25 September 2024.

Action should be taken to charge relevant liquidated damages Since the approval of the Secretary of the Ministry had not been received.

(v) It was observed during the physical audit that shopping complex, which was built at a cost of approximately Rs.180 million, was not able to achieve maximum productivity commensurate with the amount spent due to taking action to construct Minuwangoda shopping complex without preparing plans that would meet the needs of the public in the area.

This project had been identified through the development plans prepared by the Urban Development Authority for the Minuwangoda Urban Council area. The building design had been prepared to achieve maximum productivity in a valuable space in the city and to meet the existing demand, and after completing the construction of 90 shops, this building has been handed over to the Urban Council. Furthermore, the shopping complex is currently being maintained in a fully functional condition.

Actions should be made to get maximum benefit from this building, which was constructed with public funds.

(b) A public commercial building had been constructed for the Seethawakapura Municipal Council at a cost of Rs.113.11 million and handed over to the said Urban Council on 10 April 2024. The following matters were observed in this regard.

(i) Even though 7 months had passed since the building had been handed over to the Municipal Council, the shop owners had refused to rent the shops due to the size of the shops became small and the shops were not properly established to facilitate trade activities as limitation of the relevant scope in the year 2022. Therefore, it was observed that the construction of this shopping complex had not yet been able to achieve the desired objectives.

(ii) 4 variation orders had been approved exceeding the revised contract value of Rs.102 million and another Rs.23.62 million had to be paid. That was a variation of Rs.34.74 million, or 34 percent, from the estimated value. Although approval should be obtained from the Chief Accounting Officer if the average amount of variances exceeds the contingency provisions, according to the paragraph 8.13.4 of the Procurement Guidelines, action had not been taken accordingly. Furthermore, a revised estimate and plan had not been approved based on the scope limitation.

The shops have been built as requested by the Seethawaka Municipal Council, and the size of the shops has not been reduced.

An investigation should be held about not using these shops effectively for more than 2 years and necessary actions should be taken immediately to use these shops effectively.

The Ministry of Finance, Economy, Stabilization and National Policies had recommended a provided gross estimate of Rs.102 million for the completion of the essential components of the project. Revised price escalation and taxes were not included in it. However, the gross estimate prepared for the project including all the variances was Rs.167.6 million. Furthermore, an estimated amount of Rs.167.6 million was mentioned in the proposed action plan for the years 2023 and 2024. The relevant approval of the Head of Department has been obtained for 8.13.4 of the Procurement Guideline due to the average amount of

Approval should be obtained from the Chief Accounting Officer if the contingency provisions are exceeded as per 8.13.4 of the Procurement Guidelines.

		variances does not exceed 10 percent of the contingency provisions as per the final bill of this project.	
(c)	The Mahara Administrative and Commercial Complex, which was constructed by the Ministry at a cost of Rs.400 million, remained idle for 6 years from 2019 to 31 December 2024 due to non-hand overing of the building to the relevant parties. The Ministry had not taken any necessary actions to utilize this building.	The Mahara Pradeshiya Sabha has expressed its consent to take over this building through a letter dated 21 February 2025. The Legal Division of the Urban Development Authority is also studying the proposals in that letter and taking the necessary steps to amend the Memorandum of Understanding.	Immediate action should be taken to identify the reasons for the non-utilization of the constructed building, make the necessary corrections, and obtain maximum productivity from the building.
(d)	The Kotagala Wetland Park Development Project had been constructed by the Sri Lanka Land Development Corporation at a cost of Rs. 75.66 million. The following observations were made in this regard.		
(i)	05 hectares had been used for the construction of the wetland park out of 12 hectares of land that had been acquired for development as a wetland, and handed over to the Urban Development Authority to use. The remaining 07 hectares had been remained idle for about 04 years due to land acquisition without proper identification of the need.	Preliminary work has been begun to hand over the remaining hectares to the Divisional Secretary at present.	Actions should be taken to acquire the lands by identifying the need and expedite the transfer of ownership of the remaining lands.
(ii)	It had not been taken to pay compensation to the owners of the above acquired lands by 31 December 2024, and action had not been taken to return the remaining land, where development activities were not carried out, to the former land owners as per Sub-Directive 39 (a) 1 of the Land Acquisition Act.	After taking further action to acquire the land required for the development of the wetland park in accordance with the provisions of the Land Acquisition Act and settling the remaining land, compensation will be paid for an area of 5 hectares.	Compensation payments to the owners of acquired lands and the settlement of the remaining lands should be expedited.

(iii) Although a sum of Rs.7.01 million had been spent on developing the pond with an area of 15,572.19 square meters and a sum of Rs.25.86 million for preparing jogging track, it was impossible to achieve the desired objectives since they were abandoned without any maintenance work, and the total expenditure incurred, amounting to Rs. 32.87 million, had been a fruitless expenditure.

The developed area except the reservoir section, has been handed over to the Kotagala Pradeshiya Sabha to maintain for one year, until sign a formal Memorandum of Understanding. Therefore, it is the responsibility of the Kotagala Pradeshiya Sabha to properly maintain the park. Since that period has expired, the Kotagala Pradeshiya Sabha has agreed to extend the period again and ensure the proper maintenance of the park.

Immediate action should be taken to increase the productivity of this project through proper completion and maintenance.

(iv) Although, 40 street light poles of 24w LED and a meter room had been installed at a cost of Rs.6.38 million, electricity facilities had not been obtained for the premises and no security measures were in place. Therefore, it was observed during the physical audit that all the lights and switches had been removed by someone.

It is the responsibility of the Kotagala Pradeshiya Sabha to properly manage the park.

Responsible parties should be identified for the proper planning, implementation and completion of the project, any failure to fulfill relevant responsibilities should be investigated and action taken immediately and a permanent program should be developed to ensure the safety of the project site.

(e) Beliatta Ampitiya Lake walkway and landscape improvement project, which was constructed at a cost of Rs.65.77 million, had been idle without any use due to lack of maintenance.

Although Beliatta Pradeshiya Sabha has been informed on several times to take over the project, it has refused to take over the project, pointing out various shortcomings.

Actions should be made to minimize problems by performing project management tasks efficiently and effectively.

(f) Although an amount of Rs.56.2 million had been provided to the National Water Supply and Drainage Board on 27 December 2021 to provide rural water facilities in relation to the Venerable Maduluwawe Sobitha Theragama Housing Project, Since the civil works of the project had been commenced 08

The State Engineering Corporation, which is the consulting firm of the project has informed that all construction work on this project is expected to be completed by 25 May 2025, and the work has been completed now. A revision of the estimates had to be made

Action should be taken without delay to complete the project work in a timely and effective manner and to get its benefits. Actions should be taken to prepare estimates by obtaining accurate measurements and to pay the relevant institution after the

months later, it has been more than 03 years since the project was initiated, the expected benefits from the project had not been achieved. Also, due to the preparation of estimates without obtaining accurate measurements, Rs.5.51 million had to be repaid to the National Water Supply and Drainage Board on 31 December 2021 as a revision to the estimate. Furthermore, it was observed during the audit that money had been paid to another institution for more than 03 years before the desired work was completed.

due to changes in the cost of the estimates, changes in the scope of the project, and internal conditions in the country. The money had to be held in the Water Supply Board's account for more than 3 years until the project was completed.

allocated funds have been used to complete the expected work.

(g) The Ministry had spent Rs.1,369.21 million on the Pitipana-Talagala (Phase 1) Road and Western Interchange Road development projects, which had an estimated cost of Rs.917 million under the Tech City Development Project as at 31 December 2024. The projects had been stopped due to land acquisition issues and could not be completed. As a result, the Ministry had not been able to provide the expected benefits to the public from the construction of these roads and the expenditure incurred on this project had also been a fruitless expenditure.

The compensation investigation of one part is being carried out and provisions for the year 2026 have been requested from the National Planning Department for construction activities. It is planned to be completed the remaining land acquisitions and commence construction work in the year 2027.

It has been planned to provide 2 land plots to 2 land plots that were an obstacle to connecting the remaining 50 meters of the Western Interchange Road and approval has been obtained for this.

Immediate action should be taken to provide the public with the expected benefits from road construction.

#### 4.4 Projects abandoned without completing

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Light Rail Transit Project (LRT)	<p>This was a policy decision, so this expense had to be paid.</p>	<p>The factors for the failure of the project should be identified promptly by re-monitoring all stages of the project from the planning stage to its suspension. Through this, actions should also be made to increase the efficiency and effectiveness of future projects.</p>
<p>(i) The Light Rail Transit project (LRT) had been unilaterally terminated after two years from the commencement date since the letter dated 21 September 2020 issued by the Secretary to the President indicated that this project was identified as a cost-ineffective project. The total expenditure incurred on these project activities up to 31 December 2021 had been Rs.5, 978 million. Furthermore, in order to cover the loss incurred by the main consultant company of the project due to the unilateral termination of this project, the said company had requested a claim amount of Rs.5,169 million from the Ministry of Urban Development and Housing in accordance with clause 2.9.5 of the agreement. All these expenses had become fruitless expenditures since the consultancy firm had to pay USD 1.25 million, Japanese Yen 229.53 million and Sri Lankan Rupees 131.58 million as per the recommendations of the committee report appointed in this regard, as at 31 December 2024.</p> <p>(ii) Although this loan agreement had been completed on unilateral decision of the Sri Lankan government which was contractually signed under the terms of the general conditions of the Japan International Cooperation Agency, no action had been taken up to 31 December 2024, to utilize the loan amount for other government development work or to take necessary measures to minimize the financial losses that the government may incur in the future due to the loan agreement had not been legally terminated so far.</p>	<p>Since this agreement had been made between the Ministry of Finance and the relevant Japanese institution, the responsibility for terminating the loan agreement is also a responsibility that should be carried out by the Ministry of Finance itself through the Department of Foreign Resources.</p>	<p>Necessary measures should be taken without delay to minimize the financial losses that the government may incur according to the terms of loan.</p>

(iii) Approximately 21 hectares of land had been acquired for the project and those lands remained idle since any action had not been taken with regarding those lands by the date of audit.

It is not possible to return them to the landowners as it has been decided to use these acquired lands for future activities in the transportation sector as per the Cabinet decision dated 02 May 2022.

Immediate action should be taken to use the acquired idle lands to productive task or to take other appropriate measures.

(iv) No actions had been taken to minimize the losses up to the date of the audit which incurred by the government after conducting a formal investigation for relevant responsible officers with regarding to economic and non-financial adverse events that occurred to Sri Lanka since it was unilaterally terminated without a formal and rational analysis which had been identified as an environmentally, technically, economically and financially effective project.

This Ministry does not have the authority to take further action on this project as the Secretary to the President is the one who should take action in this regard as per Cabinet Decision No. අං/23/1244/601/041 and dated 17 July 2023.

A formal investigation should be conducted to determine the responsible officers for the failure of the project and the losses incurred, and necessary actions should be taken to recover the losses.

(b) The Ministry had spent Rs.137.1 million equivalents to USD 0.41 million on a private institution as at 14 December 2023 to prepare master plans for Hambantota District, Eastern Province, Western Province and Colombo City. That was a matter of contention nature during the audit that the same institution was selected to prepare the master plans again by not using prepared plans for the Western Province and Trincomalee District in 2018 for more than 05 years.

These three projects have been commenced in accordance with the agreements signed with Sabana Jurong, Singapore, as per approval of the Cabinet. Interim payments have been made based on the progress of the three projects. The preparation of the remaining two plans has been completed except the implementing of Hambantota Master Plan project. About 50 percent of the work on preparing the Hambantota City Plan has been completed as per the agreements. These three plans had been implemented based on the policy decisions taken during the previous government.

The preparation and implementation of plans should be based on a proper feasibility study and action should be taken to increase the effectiveness of the expenditure made by the ministry.

(c) The construction of the half-completed Boralasgamuwa Multipurpose Building had been stopped by mutual agreement on 08 January 2023 in accordance with paragraph iii of National Budget Circular No.03/2022. A sum of Rs.5.86 millions of the retention money had been released to the contractor on 17 March 2023 without specific agreement on the adjustments to be made in the settlement of bills or the release of the retention money and performance bonds. Even though Performance security had also been expired by 31 December 2023, actions had not been taken to extend the time of it. However the amount of Rs.248.79 million spent so far on the construction of the building had been a fruitless expenditure since the Ministry had not taken any action regarding the activation of this project until 31 December 2024.

(d) At an estimated cost of Rs.294.33 million of Ampara Sathipola Development Project, which was commenced on 15 October 2021 and to be complete on 15 December 2023 had been stopped after achieving 52 percent physical performance and Rs.64.27 million financial performance so the expenditure incurred for it had become an idle expenditure.

(e) An estimated cost of Rs.83.60 million of the Malimboda Estate Housing Project, which had been scheduled to commence on 06 October 2021 and to be completed on 31 August 2023, which had been achieved 35 percent physical progress as at 31 December 2023 but it had not been achieved any performance for the year 2024.

The National Operations Room (NOR) had given approval to resume the project. However, awarding of the contract has been temporarily stopped since this was to be implemented as a new contract of Rs.180 million. Therefore, the necessary funds for further implementation of this project are to be allocated from the Western Provincial Council and the remaining parts are to be completed.

Although it was submitted for approval of the NOR Committee for implementation this project in 2023, it had not been implemented since the approval did not receive from the NOR Committee. Actions have been taken to submit a Cabinet paper to obtain Cabinet approval to complete the remaining work based on the allocated funds in the year 2024.

It had not been possible to resume, due to the lack of funds to complete the remaining work of this project, and action will be taken to search the ability to complete the remaining work based on the funds from the Sabaragamuwa Provincial Council.

This project should be activated and action should be taken immediately to obtain the desired benefits.

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This project should be activated and action should be taken to obtain the desired benefits immediately.

(f) The Urban Development Authority had halted the construction of 06 housing projects comprising 1768 houses with an estimated cost of Rs.39, 057 million, which were commenced on 08 February 2021, while achieving a performance of less than 23 percent as of 31 December 2023.

Constructions have been temporarily suspended by collective agreement with the contractors due to the increase in construction costs of these projects with the economic crisis. Marketing proposals have been submitted for 03 projects under public-private partnership and negotiations have been held for agreements on the same. Actions will be taken to call competitive project proposals (RFP) under the Public-Private Partnership (PPP) basis for 02 more housing projects.

This project should be activated and action should be taken to obtain the desired benefits immediately.

#### 4.5 Delays in project implementation

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>The reconstruction of the Jaffna Municipal Council building had been awarded to a private company at a contract value of Rs.2,142.48 million. This project had been scheduled to commence on 10 October 2019 and to be completed on 09 October 2021, but the construction work could not be completed within the stipulated time. Although it had been decided to hand over the entire building to the Jaffna Municipal Council along with the responsibility for completing the remaining parts of this project by Cabinet Decision No. 22/1286/604/022 dated 05 September 2022, the Ministry had not taken action accordingly. However, the Ministry had taken action to grant 04 time extensions of 1,125 days until 09 October 2024 and to increase the contract value of the project to Rs.3,769 million by Rs.1,627 million and it had been planned to complete the remaining works of the project as Phase 1 and 2 under 2 parts.</p>	<p>National Operations Room (NOR) informed to the Secretary of Ministry to consider a suitable solution for the completion of the project discussed with the Hon. Governor of the Northern Province since the Jaffna Municipal Council refused to accept the half-completed project, as per the decision of the Re-strategization and Acceleration of Mega Projects (RAMP) Committee. Accordingly, it had been identified that it would cost approximately Rs.2082 million when calculating the cost required to complete the remaining work of the project. Therefore, it had been</p>	<p>The construction work of this project should be completed expeditiously to obtain the expected benefits, and actions should be taken to increase the productivity of the expenditures made by the Ministry.</p>

However, the physical progress of this project had been 85 percent and the financial progress had been Rs.1,819.64 million even though almost 6 years have passed since the project had been initiated as at 31 December 2024. But the Urban Development Authority who was the consultant of the project, had not taken action to identify the remaining works required to complete the entire project, prepare a revised estimate and obtain the relevant approval for the same. The lack of adequate staff at that authority had greatly affected to the poor performance of this project, but the Ministry had paid Rs.98.66 million as consultancy fees to that institution without paying any attention to it. planned to implement the project in 3 phases and to get the consent of the National Operations Room and the Project Investment, Management and Evaluation Committee (PIMEC).

#### 4.6 Foreign aid projects

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) <b>Support to the Colombo Urban Regeneration Project (SCURP)</b>		
(i) The Cabinet had decided to reduce the loan amount by USD 70 million from the USD 200 million loan amount due to inefficiency in the use of funds. Accordingly, the project activities of Phase 3 had been suspended and the number of housing beneficiaries had been reduced by 1,272. Furthermore, the contribution of the Government of Sri Lanka, which was USD 42 million, had been reduced by USD 14 million up to USD 28 million. The private partner contribution for land redevelopment had been removed as per the revised agreement.	The Cabinet approval had been received for the reduction of the loan amount and government contribution to purchase of emergency medicines and medical equipment. Later, the Cabinet approval was received again to give USD 28 million. Detailed project proposals have been prepared for the use of USD 28 million and the consent of the National Planning Department and the AIIB Bank has been obtained for this.	Funds should be used efficiently to achieve the desired results, and formal plans should be prepared for the use of funds.

(ii) It was observed that although 5 years had passed since the project had been initiated as at 31 December 2024, only 59 percent, or USD 77.28 million had been utilized from revised loan amount of USD 130 million due to the poor performance of the project. However, a commitment fee of Rs.562 million and an interest of Rs.3,653.17 million had to be paid up to 31 December 2024.

All the sub-projects were initiated in 2020 and 2021. So the physical progress of the project had been slowed down due to the Covid-19 pandemic. Interest will also have to be paid on the loan as the lending institution issues loan payments based on the physical progress of the project.

Action should be taken to enhance the physical progress of the project by utilizing the concessions provided during the pandemic and utilizing the funds within the stipulated time frame.

(iii) The project of constructing 624 housing units at Colombage Mawatha under this project was to be completed on 17 December 2024. Although Rs.5,145.03 million had been spent as at 31 December 2024 the work of this project could not be completed and the expected benefits could not be achieved due to the inability to obtain sewerage connection to the main sewerage system of the Colombo Municipal Council.

97 percent of the project has been completed, while the remaining 3 percent work has been delayed due to the construction of a sewerage connection to the main sewerage system of the Colombo Municipal Council, which has also commenced and will be managed within the expected cost of the project.

Action should be taken to achieve the desired goal within the specified time frame.

(iv) The project to construct 1000 houses in Stadiumgama under this project was supposed to be completed on 31 December 2024. Although Rs.9,039.12 million had been spent by that date, due to the inability to obtain sewerage connections for that housing project, the work of the project could not be completed and also the expected benefits could not be obtained.

The remaining work of the project was delayed due to delays in resolving the sewerage connection issue.

Action should be taken to achieve the desired goal within the specified time frame.

(v) Applewatta Housing Project, which will construct 700 houses under this project had been scheduled to be completed on 17 October 2023. However, the physical progress was only 40.47 percent which had been achieved as at 31 December 2024.

The contractor has been instructed to take immediate action to expedite the progress of the project, the Project Management Unit, the consultancy firm and the Ministry has already taken all

Action should be taken to achieve the desired objectives within the project timeframe through efficient and effective use of

	<p>The contract agreement for this project had been revised, which had made very poor progress and extended up to 25 October 2025 and the financial capacity of the contractor also had been strengthened by providing an additional advance of Rs.389 million.</p>	<p>possible action to overcome this situation. After considering several requests for additional advance by the contractor, and after obtaining the necessary bank guarantees, it has been decided to release an additional advance of 10 percent of the contract value through an escrow account.</p>	<p>Action should be made to achieve the desired objectives within the project time frame through efficient and effective use of project funds.</p>
(vi)	<p>Although Ferguson Road Housing Project, which was to be constructed under this project, with a contract value of Rs.4,510.91 million, had scheduled to be completed on 04 January 2024 the physical progress of its construction work had reached a very low value of 13.21 percent as at 31 December 2024. But, the Ministry had amended the agreement for this project on 31 December 2024 and strengthened the contractor's financial capacity by providing an advance of Rs.392.25 million.</p>	<p>It was decided to release an additional advance of 10 percent of the contract value through the escrow account as per the request of the contractor, after obtaining a bank guarantee. The contractor was instructed to expedite the construction work to meet the targets. The corrective notice was also sent to the contractor as per the contract agreement. Attention has been drawn to take a decision with regarding to the slow progress of the project.</p>	<p>Action should be made to achieve the desired objectives within the project time frame through efficient and effective use of project funds.</p>
(vii)	<p>The contract value of the Madampitiya 700 house construction project was Rs.4,529.26 million which was planned to be constructed under the Support to Colombo Urban Regeneration Project and its construction work was to be completed by 16 December 2024. But its physical progress was only 44.20 percent as at 31 December 2024.</p>	<p>The economic crisis in the country after the Covid-19 pandemic also adversely affected the progress of this project. The contractor had taken actions to increase the progress of the project as instructed by the Project Management Unit and the progress of the project has reached 52.23 percent by the end of April 2025.</p>	<p>Actions should be taken to achieve the desired objectives within the project time frame through efficient and effective use of project funds.</p>
(viii)	<p>The construction work of the Obeysekrapura 300 housing unit project had been suspended in 2022 after only the base and foundation of the 14-storey building was constructed. Although Cabinet</p>	<p>The procurement process for re-tendering has been initiated. The lending institution has given its consent to use the required funds from the USD 28 million allocated for the</p>	<p>The procurement process should be completed, construction work should be resumed, and project funds</p>

	approval No. 22/1177/618/007 dated 05 September 2022 had been received to expeditiously identify a new contractor through a Technical Evaluation Committee, the construction work of the Obeysekrapura Housing Project had not resumed and the constructed parts were still deteriorating by the date of the audit.	Support to Colombo Urban Regeneration Project.	should be used efficiently and effectively.
(ix)	This project had been stopped midway and the contractor had to be paid an amount of Rs.294.53 million due to cancellation without systematically following the terms of the contract agreement due to the poor performance of contractor. But the Ministry had not taken any action to identify the responsible officers and recover the relevant amount by conducting a formal investigation for the loss incurred to the Government of Sri Lanka in accordance with Financial Regulations 103, 104 and 105 by the end of the year under review.	Actions have been taken to appoint a Claims Review Committee in accordance with Sub-Clause 21.5 of the Agreement.	Immediate action should be taken to identify the officers responsible for non-compliance with the contract agreement and recover the relevant funds.
<b>(b) Urban Project Preparatory Facility project(UPPF)</b>			
The Asian Development Bank had provided a loan of Rs.1,064.79 million equivalent to USD 5.27 million for consultancy work to prepare the preliminary plans for a loan of USD 200 million and USD 1.6 million equivalent to Rs.523.42 million of this amount, had been spent up to 31 December 2024. In addition to that USD 1 million had been provided as a technical assistance grant. However, the work had been stopped midway due to the inability to complete the work as planned and the end of technical		This specific technical assistance had been officially closed on 31 October 2023. The consultants had completed the preparation of project packages valued at USD 9 million that was ready for tender within approximately six months by that date. The concept designs and safety assessments for the Trincomalee project and the solid waste management initiative had been completed. Some of the activities	Actions should be taken to achieve the desired objectives within the project time frame by using project funds efficiently and effectively.

assistance under the grant. As a result, the amount of Rs.523.42 million incurred for this project had become a fruitless expenditure.

implemented under the UPPF were completed and handed over to the Ministry at the conclusion of the consultancy project. The money spent will not be wasted as per the maximum information and data provided and documents related to the activities are to be used for the further needs of the Ministry and the Urban Development Authority.

**(c) Anuradhapura Integrated Urban Development Project (AIUDP)**

(i) According to the loan agreement of the project, the lending institution had agreed to provide Rs.8,149.96 million and the Government of Sri Lanka had agreed to provide Rs.1,629.99 million. The work of the project had commenced on 01 December 2016 and the Cabinet approval had been received to extend the project period until 31 March 2025 due to the poor performance of the project. But it had been observed that the expected results to be achieved by the Anuradhapura integrated Development Project had not been achieved due to the inability to complete the expected work completely within that period.

The design consultancy was expected to be completed in 21 months, but it was unexpectedly delayed by 34 months due to several issues and procedural issues with the consultancy firm. The government took a policy decision to restructure the loan facility, due to the difficulties caused by the Covid-19 pandemic in 2019 and the economic crisis in 2020. Accordingly, the Government of Sri Lanka and the French Agency have discussed and revised the original scope of the project. Accordingly, the loan amount has been limited to Euro 6 million to complete several activities, including the construction of the Southern Multimodal Transport Hub. 5 packages have been successfully completed out of the 12 packages scheduled.

Action should be taken to achieve the desired objectives within the project time frame by using project funds efficiently and effectively.

(ii) The Anuradhapura Southern Multimodal Transport Centre construction project, with a contract value of Rs. 1,176 million

The French Agency officially informed the government on 02 August 2024, that this amount of Euros 6 million

Action should be taken to achieve the desired objectives within the project

(excluding tax), was planned to be constructed under this project had been commenced on 24 February 2022 and expected to be complete on 25 November 2023. However, the Ministry had temporarily suspended the work of this project due to the financial crisis in the country. Although the Government of Sri Lanka had agreed to provide funds for the completion of the project until the debt restructuring program had been completed, the consent of the lending institution had not been given up to the date of audit. However, a sum of Rs.561.46 million had been spent from government funds for the construction work and its physical progress was 53 percent as at 31 December 2024.

(d) The Metro Colombo Urban Development Project (MCUDP) had been completed on 31 December 2022 by spending USD 199 million which is 93 percent of the agreed amount of the lending institution and USD 53 million which is 50 percent of the agreed amount of the Government of Sri Lanka. But the Winding up account which should have been prepared by legally transferring the assets and liabilities of this project, had not been submitted for audit by 31 December 2024.

The answers had not been given.

Project should be completed and prepared the Winding up account and submitted for audit without delay.

#### **4.7 Projects implemented with local funds**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
The Colombo Metropolitan Solid Waste Management Project with an estimated cost of Rs.33,237.76 million had been planned to implement under		

would be provided in the form of reimbursement. time frame by using project funds efficiently and effectively.

04 packages was scheduled to start on 29 December 2017 and to be completed by 30 June 2019. The following matters were observed in this regard.

<p>(a) The construction of three packages of the project, namely Waste Transfer Station (A), Sanitary Landfill (B) and Railway Extension (C) had been awarded to a Chinese company at a value of Rs.25,577.95 million (USD100.96million). The World Bank had insisted on re-bidding under the guidance of the World Bank since the method of chosen of the company was not transparent. Government of Sri Lanka had to bear the cost of this project which could have been implemented in a wider range of areas under the support of the World Bank due to the inability to cancel the relevant tender.</p>	<p>The World Bank had informed to cancel the relevant tender and re-call tenders. But the Ministry had informed to the World Bank representatives that it was difficult to re-call tenders in view of the serious problematic situation prevailing in the country regarding waste management at that time. The remaining amount has also been repaid of special aid which was provided by the Asian Infrastructure Investment Bank.</p>	<p>Formal action should be taken against the responsible parties who did not follow proper procurement and tendering procedures for local development activities that were to be carried out with foreign aid, and the necessary arrangements should be made without delay to ensure the efficient and effective use and monitoring of local and foreign funds.</p>
<p>(b) Time extensions had been given to the Chinese company time to time due to delays of the work on 03 packages namely the construction of waste transfer stations, construction of sanitary landfill and extension of railway lines and a sum of Rs.21,336.49 million had been paid as at 31 December 2024. Although the work had to be completed by 30 September 2024, these construction works had not been completed as at 31 December 2024.</p>	<p>The 03 compactors installed at the Kelaniya Waste Transfer Center were not functioning as per the relevant procedures. Furthermore, the project progressed slowly due to the delay in payment of the money.</p>	<p>Immediate action should be taken to correct the shortcomings in the project and to complete the project work expeditiously and achieve the desired benefits.</p>
	<p>Further, the contractor temporarily suspended the project due to the delay in payment of the money. After completing the relevant arrears, the contractor has again requested a period of 23 weeks to complete this work and hand over the project. These compactors are to be installed in their original form and training is also to be provided on how to</p>	

operate them during that period.

(c) A financial provision of Rs.2, 963.61 million had been allocated for purchase of the required machinery and equipment under the package (D). 04 locomotive engine sets had been imported by 31 December 2019 at a cost of Rs.8.27 million out of this amount and had been given for the use of Railway Department and 94 container boxes had been imported and stored at a cost of USD 0.8 million on 22 April 2022. Although agreements had been signed on 21 October 2019 to import 34 railway wagons from an Indian company at a value of USD 2.3 million, the agreement had been deactivated due to the relevant institution non-submission of the structural conceptual plan as per the agreement. Anyway it was not possible to procure the railway wagons even by the end of the year under review. However, the Ministry had spent Rs.2,024.21 million on this package and achieved 95 percent physical progress as at 31 December 2024.

(d) Even though the Ministry had spent Rs.25,976.27 million as at 31 December 2024 on this entire project, the project had not been possible to activate and achieve the expected results since the project is not yet completed. The following points had been also observed during the physical audit conducted in this regard.

(i) The contractor had purchased 44 vehicles valued at USD 8.27 million for transport of waste to the railway yard which is brought to the waste loading center and transport of waste from the Aruwakkalu waste center to the landfill and other functions and

It had been requested the approval from the Cabinet of Ministers to repair 17 railway wagons owned by the Railway Department at a cost of Rs.549.6 million. The Cabinet of Ministers had given approval to explore the possibility of purchasing these railway wagons through the investor who will be operating activities of project. However, the Sri Lanka Railways Department has given the consent to provide the wagons required to continue this project until the railway wagons are purchased.

Actions should be taken to complete the project work expeditiously and achieve the desired benefits.

These vehicles are constantly being used as needed since its operations have been ongoing continuously from the waste was deposited at the sanitary landfill.

Actions should be taken to use of the assets in maximum level and take over these assets legally for the Ministry and account them under the

these vehicles had been parked in the vehicle yards of the waste transfer centers. Those vehicles were imported to the country in 2019 and have been idle for about 5 years until the contract is completed and handed over. Therefore, these vehicles had become inactive and since the warranty period had also expired, additional costs have to be incurred to reactivate them.

assets of Ministry.

(ii) It had been deposited approximately 50,000 metric tons of solid waste in Aruwakkalu Sanitary Landfill before the completion of the construction work, between August 2019 and December 2020, due to an instant decision by the government. Therefore, an additional cost of USD 1.13 million had to be incurred for the treatment of wastewater generated by that waste.

The wastewater is stored in two open ponds and two wastewater regulatory tanks. It was approved by the Cabinet to enter the separate treatment of wastewater contract of a cost of USD 1.13 million. However, the Aruwakkalu wastewater treatment system was severely damaged, due to the flash flood situation. However, the contractor has now restored the system and started operations. Accordingly, they have started treating this stored wastewater from 15 February 2025.

Action should be taken to achieve the desired objectives within the project time frame by using project funds efficiently and effectively.

(iii) The Aruwakkalu landfill had been flooded due to the flood on 09 November 2021, since a drainage system had not been constructed to discharge rainwater collected from the outside of the Aruwakkalu landfill. Therefor the machinery installed at the wastewater treatment centre and the waste gas treatment Centre had become inoperative.

The canal could not be cut, due to the opposition of the local residents against the cutting of the storm water channel towards the Puttalam lagoon as mentioned in the project plan. Therefore, the contractor increased the capacity of the storm water reservoir. The storm water flowing from outside the project site was diverted towards the lagoon by constructing two dams. The damaged machinery

Work should be carried out immediately to restore the inoperative machines and to establish a drainage system to drain rainwater.

installed at the wastewater treatment centre and the waste gas treatment centre has now been mostly updated by the contractor and the remaining ones will also be updated soon.

#### **4.8 Management of Assets**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>In accordance with paragraph 2(i) of the Asset Management Circular No. 02/2017 dated 21 December 2017 Vehicles used without the legal ownership should be registered in the name of their institution or formally transferred to the institution that has the legal ownership. However, it was observed that 21 vehicles valued Rs.254.82 million had been used by the Ministry without the legal ownership.</p>	<p>There has been a delay in acquiring legal ownership due to problems in acquiring the title to those vehicles.</p>	<p>Action should be taken without delay to properly take over the ownership of the vehicles required by the Ministry and hand them over to the owners of other vehicles in accordance with the circular instructions.</p>

#### **4.9 uneconomic transactions**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) A contract valued at Rs.107.3 million of NuwaraEliya, NanuOya Riverbank Development Project was commenced on 29 September 2021 and it had been agreed to be completed on 28 September 2022 and an advance payment of Rs.16.34 million had been also paid to the contractor. Although extensions were approved on two occasions, the contracted work could not be completed on the scheduled date due to the economic crisis prevailing in the country the project. Later, the scope of this had been limited and</p>	<p>The project was completed by identifying only the essential components under the supervision and advice of the Project Engineer since the funds were not sufficient. This project was handed over to the NuwaraEliya Urban Council on 25 October 2023 and it will be the responsibility of that institution to carry out its maintenance.</p>	<p>Actions should be taken to complete essential project activities efficiently without delay and follow-up actions with regarding the success and benefits of the relevant projects should also be formalized.</p>

only the riverbank side of NanuOya had been constructed. The Ministry had spent Rs.47.24 million for this project and had been completed as at 31 December 2024. However, the bank had been covered with sand and debris due to the failure to complete the construction of riverbank side of NanuOya. Furthermore, since maintenance work was not carried out properly, the flow of water in Nanu Oya was blocked even before a year had passed since the project was completed, and the amount of Rs. 47.24 million spent on this project had become a fruitless expenditure.

- (b) Although Walapane Multipurpose Building and Sathipola construction project with a contract value of Rs.118.89 million was to be commenced on 28 September 2021 and should be completed on 11 November 2022 the project had been completed with the agreement of both parties at a final value of Rs.48.94 million as per the instructions given in National Budget Circular No. 02/2022 dated 26 April 2022 and the contracted work of the project had not been completed by that date. The following matters were observed in this regard.
  - (i) The 2021/2022 period, when this contract was awarded, was a time of financial difficulties due to the regularly shutdown country due to the Covid-19 pandemic. Therefore, this project had to be stopped midway due to the initiation of a project to construct Necessary cabinet approval to be obtained for commence the remaining work on the project in the year 2025. Actions should be taken to complete the remaining work without delay by utilizing the funds allocated for the project efficiently and effectively.

a multi-purpose building, including a market, which was not essential at such a time and for which the need was not recognized and was held only once a week. Therefor the amount of Rs.48.94 million spent on it had become an uneconomical expense due to the abandonment of this project without completion.

(ii) Cabinet approval had not been obtained before commencing this project activities.

This project was initiated and implemented with some shortcomings in obtaining formal approval but those shortcomings have been corrected and the project has been implemented.

The Cabinet approval obtained for this project should be submitted for audit.

(c) The Nuwara Eliya Facility Center construction project had been completed by spending Rs.54.62 million on 14 September 2020. This project had been granted 7 time extensions and although the contractor had requested 265 days for the 7 extension up to 10 July 2020, the consultancy firm had recommended 256 days. However, the Secretary to the Ministry had granted approval for only 48 days up to 15 December 2019 and Rs.4.32 million had been charged as liquidated damages for the remaining delay period.

However, in accordance with the decision of the case filed by the contractor before the Dispute Resolution Tribunal against the imposition of liquidated damages the Ministry had paid Rs.5.31 million to the contractor on 22 July 2024 as overcharged liquidated damages and related interest. The Ministry had to

This is due to the lack of experienced knowledgeable officers who can present evidence in the face of the questions raised by the Dispute Resolution Tribunal. This has also become clearer in the decisions received by the Ministry in the face of such dispute resolutions in the past.

Responsible officers who have not taken decisions in accordance with the rules and regulations related to construction activities should be identified and actions should be taken to recover these additional costs, and action should be taken without delay to strengthen those sections.

incur additional costs as mentioned above due to its failure to appoint strong legal officers who could prove innocence of the Ministry in the face of the Dispute Resolution Tribunal.

(d) A sum of Rs.219.1 million had been released to the National Water Supply Department for the program to provide drinking water using Nano + RO technology as at 31 December 2024. Although 50 water treatment systems had been installed in the districts of Vavuniya, Kilinochchi and Mullaitivu at a cost of Rs.188.1 million from the year 2021 to the end of the year 2024 those assets remained underutilized due to not taking action to make them into operational condition and provide them to kidney patients.

(e) Since the ministry was established in 2015, the office has been established in temporary buildings, incurring a large replacement cost and rent due to lack of a permanent building to the Ministry .Currently several floors of two buildings owned by the Urban Development Authority are being rented out and maintained and approximately Rs.201 million had been paid to the Authority as building rent for the year 2024. But actions had not been taken to organize it in a more equitable manner or to establish the ministry in a suitable permanent building due to the Urban Development Authority is also an institution under this ministry,

There is a lack of awareness among the resettled people in these districts about the need and importance of safe drinking water. 6 projects are considered to be underutilized out of these 50 projects and the Director General of the National Community Water Supply Department has instructed to the relevant officers to prepare a plan for implementing these projects more effectively.

Action has not been taken for this due to not giving the approval for new construction under expenditure control.

The money used for projects should be used efficiently and effectively, and actions should be taken to provide clean drinking water to the people by making the purification systems operational.

Actions should be taken to minimize the expenses incurred in maintaining the Ministry by establishing the Ministry of Urban Development, Construction and Housing in a permanent building or by following other steps.

#### **4.10 Failure to respond to audit queries**

<b>Description of the audit query</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
Replies had not been provided to 09 audit queries issued in the year 2025. Furthermore, there was a delay ranging from 19 to 310 days in providing replies to 20 audit queries submitted in the year 2024.	Most of the activities implemented by the Ministry are carried out through institutions under the Ministry. The Ministry has also identified that it takes some time to obtain basic information related to audit queries related to those projects and institutions. Actions are already being taken to minimize that situation.	The audit query register should be examined and action should be taken to rectify the deficiencies pointed out in the audit queries received in accordance with Financial Regulations 155 and 452(1). Chief Accounting Officer should ensure that replies to such queries are provided within a specified period in accordance with Section 38(1) of the Audit Act No. 19 of 2018. In the case of queries that may be delayed in providing replies, action should also be taken to send an interim report for that purpose.

#### **4.11 management weaknesses**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) An amount of Rs.164.13 million had been paid for the construction work of the Kurunegala Rajapilla Urban Park development project. Its total cost was Rs.169.9 million when the project was completed. But the Department of National Planning had only granted approval up to a limit of Rs.24.3 million. But the approval had not been obtained from the Department of National Planning for the amount of Rs.145.6 million exceeding that limit. Furthermore, it was observed that the payment of Rs. 164.13 million to the contracting agency was not made in accordance with Financial Regulations Nos. 136 and 138.	Instructions have been given by letter dated 13 February 2025 to obtain Cabinet approval after discussions with the Ministry of Finance in this regard. Accordingly, actions are currently being taken to obtain Cabinet approval. Therefore it would not be correct to state that action has not been taken in accordance with Financial Regulations 136 and 138.	Relevant laws and regulations should be complied with. When implementing projects and Cabinet approval should be obtained and action should be taken without delay to submit them for audit.

(b) 39 development officers working in the Resettlement Division of the Ministry of Urban Development, Construction and Housing had been attached to 06 District Secretariats and 17 Divisional Secretariats. It had not been observed in audit that the desired goals had not been achieved by assigning the relevant officers to those offices, since their performance had not been evaluated. The Resettlement Division had not maintained the information with regarding the reporting of these officers to the relevant work places and the leave details of the relevant officers had also not been maintained systematically. Accordingly, it had been observed that the salaries had been paid them without confirming their reporting to work.

All salary slips paid to officers working in the North and East District Secretariats have been signed by the relevant officers, and that information has been provided for audit on 27 May 2024.

The performance evaluation of officers attached to the District Secretariats should be carried out without delay, attendance and leave details should be maintained in accordance with the provisions of the Establishments Code, and salary processing and payment should be carried out in accordance with it.

(c) There are currently 07 cases pending in court against the Ministry of Urban Development, Construction and Housing and projects implemented under the Ministry and it was revealed that Rs.6,137 million would have to be paid in future in relation to 05 of these cases in the financial statements of 2024. It has been observed that if the Ministry receives an unfavorable litigation in these cases, it will be an additional burden on the government in the future.

The progress of the court cases has been presented.

Administrative matters should be conducted in a manner that minimizes litigation, and every effort should be made to obtain a favorable decision for the Ministry in existing cases.

## 5. Good governance

### 5.1 Providing services to the public

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>The Ministry had spent Rs.16.15 million (without VAT) to implement the landscaping development project in Talawakelle town. But the area and walkway had become unusable and could not be used for exercise due to lack of maintenance. Furthermore, Rs.0.25 million had been spent to plant 90 trees on that land, no such trees had been planted. Accordingly, the main objective of attracting tourists to the city of Talawakelle, which was expected from this development project, had not been achieved and the public had not received the expected benefits from this project.</p>	<p>This project had been implemented by the Urban Development Authority in 2021 under the Siyak Nagara Program at the request of the Lindula Municipal Council, Talawakelle, and had been fully completed and handed over to the Lindula Municipal Council on 21 February 2022. Accordingly, the maintenance of the construction premises should be carried out by the Lindula Municipal Council.</p>	<p>The expected benefits of this project should be provided to the public by involving relevant institutions.</p>