

Support to Colombo Urban Regeneration Project - 2019

The audit of the financial statements of the Support to Colombo Urban Regeneration Project for the year ended 31 December 2019 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 in the Loan Agreement No. L0081A dated 25 April 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Infrastructure Investment Bank (AIIB). My comments and observations which consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, Ministry of Urban Development, Water Supply and Housing Facilities is the executing agency and the Urban Development Authority is the Implementing Agency of the Project. The objectives of the Project are to improve housing conditions of law-income communities and increase land use efficiency in Colombo through investment in the construction of affordable housing and redevelopment of land, with associated policy and system enhancements. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 287 million equivalents to Rs. 50,460 million and out of that US\$ 200 million equivalents to Rs. 35,163.7 million was agreed to be financed by the Asian Infrastructure Investment Bank (AIIB) and out of that US\$ 82 million equivalents to Rs. 14,417.2 million to be financed by the Government of Sri Lanka (GOSL) and out of that US\$ 5 million equivalents to Rs. 879.1 million agreed to be financed by the private partner. The Project commenced its activities on 22 July 2019 and scheduled to be completed by 30 June 2025.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the Financial Position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

- As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Underutilized Resources

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The budgetary allocation amounting to Rs.1,285 million and Rs.310 million had been provided by the General treasury in 2019 for the utilization of foreign loan and GOSL expenditure respectively. However, out of the total allocation an amounting to Rs.87.91 million of foreign loan and an amounting to Rs.51.32 million of GOSL had been utilized at the end of the year 2019. Accordingly, the loan allocation amounting to Rs.1197.09 million and the GOSL allocation amounting to Rs.258.68 million representing 93.15 per cent and 83.44 per cent respectively had not been utilized by the Project during the year under review due to slow progress of the activities of the Project.	Possible delay in construction activities of the Project.	Even though the loan agreement was signed by the Government and the AIIB on 25 th April 2019, the loan effective date was 25 th July 2019. Therefore, the project has taken action to recruit project staff during that period. Furthermore, the project has commenced preliminary activities of the sub components of the project. Most of these sub activities related to the initial procurement process which has not incurred more expenditure.	Achievable targets should be decided by considering the action plan and the allocation should be requested accordingly.

3. Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The Project had obtained the cadre approvals from the Department of Management Service on 31 January 2019, to recruit 91 staffs for the Project activities. However even at the July 2020 there were only 19 staff had	Possible delay in activities of the Project.	Even though the approval is granted for the PMU staff by the Department of Management Services, recruitments were delayed due to Presidential election, Parliament elections	Action need to be taken to recruit qualified staff for the Project to commence the activities of the Project.

been recruited to the project staff.

and Covid 19. According to the Election Commissioner's instructions as well as the new circulars published by the Secretary to the Treasury the staff recruitment affected. Further instructions were given to refrain from recruiting any PMU staff outside the respective agency until further instructions are issued by the Secretary to the Treasury

- (b) Even though the approval had been obtained by the Department of Management Service to recruit some vacancies related to important and confidential works, due to the vacancies of such posts even at the year under review and such works to be headed by the project staff had been performed by the external agencies and by individuals at a cost of Rs. 1,853,300.
- Important and confidentiality of some project information could not be protected.
- These types of services were obtained from outsiders under the supervision and coordination of the responsible officer of the PMU to maintain the confidentiality of the project documents and the works.
- Action need to be taken to recruit required staff without delay.