

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

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head-123- Ministry of Urban Development and Housing for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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. Pursuant to Section 11(1) of the National Audit Act No. 19 of 2018, the summary report containing my comments and observations on the financial statements of the Ministry of Urban Development and Housing was issued to the Chief Accounting Officer on 31 May 2023. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 14 June 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. The report of the Auditor General 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 will be tabled in Parliament in due course.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Urban Development and Housing as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My 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 Responsibilities of the Chief Accounting Officer and Accounting officer for the Financial Statements**

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

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

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

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### **1.5 Report on Other Legal Requirements**

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

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

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Capital Expenditure

The following deficiency was 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>
Although the cost of acquisition of capital assets was Rs.117.15 millions of the financial performance statement, that expenditure had been shown under investing activities in cash flow statement as Rs. 74.78 million and the statement of financial position it was shown as Rs.105.91 million. Therefore, those values had not been comparable.	In taking the assets of the abolished State Ministries into the accounts of the Ministry, those assets had been accounted by the Treasury as the opening balances of the Ministry. According to that, those figures were not compared together as the financial statements had been prepared based on the treasury printout.	That assets acquired during the year should be properly accounted for.

#### (b) Imprest Balance

The following deficiency was revealed in accounting the imprest balance.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Action had not been taken to write off brought forward unsettled imprest balance of Rs.20 million, under Financial regulations 109 with the approval of the treasury and budgetary provision.	Negotiations are ongoing with the Treasury Operations Department to settle this amount.	Prompt action should be taken to write off the Unsettled imprest balance as per F.R. 109.

**(c) Property plant and equipment**

The following deficiency was revealed in accounting for Property plant and equipment.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
The goods balance shown in the ledger has not been physically checked and also not included in the inventory books of Ministry when transferring the inventory items valued at Rs. 1,876 million to the Ministry from abolished State Ministries as per F.R 751 and 755 (1) and (2).	The Ministry's CIGAS program has been incorporated into the Treasury's computerized asset management data system. Instructions had been given to officers to complete updating the registers during the next few months.	The correctness of the transfer and acceptance of government properties should be verified and documented.

**2. Financial Review**

**2.1 Management of Expenditure**

The following deficiencies were observed.

	<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a)	Aggregate amounts of Rs.2.33 million provisions allocated for 11 recurrent expenditure objects and Rs.313 million for 20 capital expenditure objects had been completely saved. Therefore, the tasks expected to be performed by those provisions had not been fulfilled during the year under review.	Estimates had been prepared based on forecasts that are expected to actually occur in preparing the budget estimates.	The estimates should be prepared as completely and accurately as possible in terms of Financial Regulation 50 (ii).
(b)	Although a sum of Rs.0.77 million had been obtained for one expenditure object from Supplementary allocation, that amount had not been spent for the relevant work.	Instructions had been given to the officers to work on a correct forecast in future.	The allocation reserved by the supplementary allocation should be spent for the relevant work during the year.

## 2.2 Incurring of Liabilities and Commitments

The following deficiency was revealed

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
Contrary to paragraph, 02 of the state Accounts Circular No. 255/2017 dated 27 April 2017, the ministry had committed to Rs.396.57 million as liabilities over the savings limit amount of Rs.3.43 million relating to provisions for 06 expenditure objects.	Obligations were entered into beyond the annual allocation limit, for some expenditure objects and the relevant liabilities were released after the completion of the related work within the next accounting year itself.	It should not incur Liabilities beyond the provided allocation limit.

## 3. Operating Review

### 3.1 Non-achievement of expected Output Level

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The project to build a garbage collection center in an area of 266 acres in the Aruwakkalu area of Puttalam, and to dispose of 1200 metric tons of solid waste collected daily in the western region, through railway lines, had been proposed to be implemented in 2014, which could not be implemented, but with the loss of 32 lives in the Methotamulla garbage dump landslide on 14 April 2017, a cabinet memorandum had been submitted to implement the project and approval had been obtained on 9 May 2017. Even though this had been proposed to be done by foreign aid, because of the inability to implement the recommendations given by the World Bank, the aid amount	This has been affected by the strong opposition from the people of the area since the project was started, the situation of the Covid epidemic in 2020/21 years, due to the inability to construct a flood drainage canal as per the project plan, the damages happened to the machinery due to the flood situation in November 2021, due to the delay in settlement of bills, the contractor had demobilized the construction work for several months.	Necessary actions should be taken to give the expected benefits for the public from the project quickly.

USD 700,000 which they agreed to provide had been lost. Therefore, this project had been implemented with local funds. The estimated cost of the project was Rs.19,127 million and Rs.85 million had spent on feasibility studies. This project was planned to start on 01 January 2018 and to be completed by 30 June 2019, and to be implemented under 04 packages.

The construction works of 03 packages namely construction of garbage exchange centers, construction of sanitary landfills, and extension of railway lines had been assigned to a Chinese company under the project, but the construction works had not been completed even at the end of the year under review. Under the package of required machinery purchase, 04 sets of locomotives had been imported spending Rs.8.27 million after laps of 03 years up to 31 December 2019, the Railway Department had used them for other tasks due to they could not be used for the relevant work. 94 container boxes valued at USD 0.8 million were imported and stored on 22 April 2022, although an agreement had been signed on 21 October 2019 to import 34 railway wagons valued at USD 2.3 million from an Indian company the agreement had been canceled due to the fact that the relevant organization did not submit the structural conceptual plan as per the agreement. Therefore, it was not possible to supply rail wagons even at the end of the year under review. Furthermore, due to the

fact that the garbage collection center had not been prepared an appropriate system to deal with the flood disaster, the machinery that had been submerged in the flood in 2021 had not been restored by the end of the year under review. However, although a sum of Rs.21,045 million had been spent on this project, the expected benefits from the project had not been obtained due to not completing the planned activities up to 31 December 2022.

- (b) It was observed at the physical inspection on 20 February 2023, 18 shops, the elevator installed at a cost of Rs.5.6 million and one toilet with a clogged plumbing system remained idle from 15 December 2021 of the completion date of the Katubedda market building which was completed on 15 December 2021 with 43 shops at a total contract sum of Rs.196.2 million under the city development project in 9 provinces.
- The entire shops are currently in use. The Service Engineer of the State Engineering Corporation has agreed to provide the necessary support to enter into a contract with the supplier for proper operation of the sewage treatment system in the future.
- That is the duty of responsible officers to take action to obtain expected benefits from constructing the building.
- (c) According to the action plan of the estate sector, although Rs.65 million had been allocated to complete 466 houses, which were in the final stage under the “Haritha Run Niwasa” Housing Program as at 31 December 2022, it was observed that only 282 houses had been fully completed, which was 60 percent of the expected completion. Although Rs.227 million or 50 percent of allocated amount of Rs.451 million had been released to Plantation Human
- Agreed
- That projects should be planned realistically and that it is the responsibility of the management to take action to complete them within the targeted time

Development Trust for construction of houses in Hatton, Nuwara Eliya, Kandy, Ratnapura, Kegalle and Galle in 06 zones, which were started in 2021 and to be completed by November 2021, but the work had not been completed by the end of the year under review.

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|-----|--|--|---|
| (d) | Although Rs. 2.5 million had been allocated under the title deeds program to confirm the land rights of 1000 families in the estate sector according to the action plan of estate sector, action had been taken to confirm Land rights of only 300 families. It was observed that it was only 30 percent of the desired target.  | Agreed   | Action should be taken for the implementation of the programs as planned. |
| (e) | Although Rs.95 million had been allocated for the completion of 180 houses, only 26 houses had been completed by spending Rs.35 million up to 31 December 2022, under the 4,000 Indian Aid Housing Program of the estate sector. Accordingly, it had been observed that the financial and physical progress of the project was 37 percent and 14 percent respectively. | Construction works had been delayed due to the increase in the price of raw materials, shortage of fuel, etc. So far construction of only 154 houses has been started. | That arrangements should be made to implement the programs as planned.    |

### 3.2 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) Ministry had not taken action to handover 15 projects including 04 city beautification projects and 02 road improvement projects had been completed by 30 June 2022 under the Hundred Cities Project valued at Rs.496 million, up to end of the year under review.	11 projects had been handed over so far. Other projects unable to handed over due to non-availability of consent of the Railway Department for the condominium plan and problems related to ownership of the land etc.	The projects should be handed over to the relevant institutions immediately after the completion to get the expected benefits.



- (b) The contract of Bulathsinghala Egaloya Multimodal Building had been awarded to the Central Engineering Consultant Bureau on 16 August 2016 for a contract price of Rs.41 million Under the Sukhita Purwara City Development Project. But after awarding the contract, it was divided into 03 phases and the contract value had been increased up to Rs.153 million by 272 percent. Also, possession of the building was handed over to Bulathsinghala Pradeshiya Sabha on 20 October 2018 without completing the works such as installation of seats, air conditioning, lighting, elevator, stage curtains for the auditorium, but due to the incompleteness of the building, it remained unusable. However, the building was handed over to the Vocational Training Authority through a Memorandum of Understanding on 16 November 2021. According to that it was observed during the physical audit inspection conducted on 03 March 2023 although 04 years had passed since the construction of the building has been completed, it had not been used for the intended purposes of construction.
- It had been given to the Vocational Training Authority for a period of 30 years from 16 November 2021 to conduct programs, under a memorandum of understanding.
- Construction should be planned after identifying the requirements and action should be taken to transfer the constructed building after completing in usable condition.
- (c) According to the guidelines for the implementation of housing construction for the estate community, the Plantation Human Development Trust had been entrusted with the responsibility of implementing the projects and performing all the work of loan recovery as per the agreement. In addition, it was decided to pay a
- Previous contracts for house construction have been terminated with a mutual understanding. Work is being completed on houses that can be completed within the Rs.500 million allocated for the Ministerial Housing Program for the year 2023. The payment of loan
- That legal action should be taken in respect of violation of the provisions of the Code of Conduct for the Implementation of Housing Construction for the Estate Community.

management fee of 7 percent of the estimated value of the relevant housing project for the implementing of relevant works. Accordingly, a sum of Rs.270 million had been paid to that institution as management fees for 4,202 houses which were completed and handed over and not handed over houses of the estimated value of which were Rs.2,920 million and Rs.946 million respectively. But at the end of the year under review, the loan installments of Rs.1,997 million to be collected from the beneficiaries had not been collected.

Further, estimated construction cost of Rs.201 million and Rs.837 million had been allocated for the construction of 145 and 602 houses for 12 and 30 housing projects implemented in 2020 and 2021 respectively. The total cost of Rs. 110 million and Rs.228 million had been released to Plantation Human Development Trust at the end of the year under review, for payment to the relevant contractors, and management fees were also paid to that institution. Although the contractual periods of the respective projects had passed, the projects had not been completed and handed over to the beneficiaries and the necessary activities to recover the respective loan installments had not been done by the said institution.

installments of the housing projects built in the year 2017 has started, and the loan installment Rs.62,400 has been recovered for October 2022.

### 3.3 Projects abandoned without completing

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Mobilization advance amounting to Rs.114 million had been paid to the relevant contractor on 6 March 2019 and 27 November 2020 to implement the future works of the Pitipana Talagala Road Phase 01 Development Project which had been awarded on 26 October 2018 for a contract value of Rs.563 million. According to section 2.3.1(b) of the Government Procurement Guidelines, the contract had been awarded without confirming the fact that the project could be implemented without interruption, and during the construction work, objections had been raised from the local residents regarding land acquisition and compensation. The construction work had been suspended due to that protests. Therefore, it was observed that despite the use of government funds with an opportunity cost, this road was not able to provide the expected benefits to the public after completing the construction work.	A case has been filed under No. 49528 and 49529 in the Homagama Magistrate's Court to take legal action against the landowners under the section 14(2)(b) of Government Land Act. Due to protesting for the development works by entering those lands by the landowners.	The Ministry is responsible to identify projects based on priority needs, legal activities for required land acquisition and to complete the projects within the target period and provide relevant benefits to the public.
(b) 07 projects valued at Rs.113.93 million started by the Ministry in the year 2021 had been stopped as per the circular dated 26 April 2022 issued by the Ministry of Finance. Expenses were incurred in the range of 25 percent to 53 percent for some of these projects. It was observed that if those projects are suspended, the expenditure amount of Rs.48.62 million would be an uneconomical expenditure.	The Treasury has given approval for the continuation of 05 projects. The construction works of those projects were still going on.	Action should be taken to complete the projects with higher completion percentage as the necessary approvals to achieve economic efficiency.

- (c) A sum of Rs.1.5 million and Rs.1.8 million had been paid respectively for the project to start traditional restaurants in Talawakele which was estimated Rs.4 million, and the projects of the poultry and goat farming, mushroom cultivation and polythene related cultivation projects carried out by Watagoda Praja Shakti Centers started on 12 April 2020 which was estimated for Rs.9 million. However those projects had been abandoned by 31 December 2022 and the money paid had become fruitless. The reasons for abandoning these projects had also not submitted to the audit.
- Letters have been sent on 26 May 2023 to the Chief Executive Officer - Soumyamurthy Thondaman Memorial Foundation inquiring about the current progress of starting traditional restaurants projects.
- Action should be taken to give the related benefits by activating the abandoned projects or to recover the paid money.
- (d) Housing Division of the Ministry had planned to construct 27,555 houses under 10 housing projects with an estimated cost of Rs.4,989 million initiated during the period 2017-2020. A sum of Rs.4,025 million had been spent for it as at 31 December 2022, and only 5,604 houses had been completed. According to progress reports, as of 31 December 2022, there were 07 housing projects with less than 25 percent progress, 02 projects between 25 and 50 percent, and one project with more than 75 percent. The rest of the work on other houses to be built had not been completed and stopped midway.
- The cost of building houses has increased due to insufficient provision to complete the continuation projects, non-receiving of imprest from the year 2020, and increasing the prices of building materials. Accordingly, the amount given for a housing unit was not enough to finish the entire work of the house. Accordingly additional funds have been requested.
- Projects should be completed and given to the beneficiaries according to the necessity of the started housing projects by arranging the funds.

### 3.4 Projects without Progress despite the release of Money

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although a sum of Rs.31 million or 19 percent of estimated amount of Rs. 160 million had been spent, for the implementation of housing projects in 06 estates in Hatton and Nuwara Eliya zones under the estate housing division of the Ministry, but no physical progress had been made.	It was planned to finish the work on houses that can be completed within the amount of Rs.500 million allocated for the ministerial housing program for the year 2023. .	Projects should be completed and given to the beneficiaries according to the necessity of the started housing projects by arranging the funds.
(b) Rural Housing and Construction and Building Materials Industry Development Division, for the “Valioya Housing” scheme started in the year 2019 Rs.32 Million had been spent. But out of 256 houses targeted for construction, none of the houses had been completed. Furthermore, although a sum of Rs.530 million had been spent for the Mullaitivu, Kilinochchi housing improvement project which was started in 2019, none of the houses had been completed the improvements.	No financial allocations have been received from the Treasury after 2019. The balance of the estimate is scheduled to be paid in 2023 and site work to begin in July 2023.	Projects should be completed and given to the beneficiaries according to the necessity of the started housing projects by arranging the funds.
(c) The contract for the establishment of 115 water treatment plants for the people in the areas where kidney disease is prevalent in the Northern and Eastern provinces was awarded to a private company at Rs. 481 million on 06 of October 2021, through the National Community Water Supply Department by the Rural Housing and Construction and Building Materials Industry Development Division.	Arrangements are being made to hand over 25 water treatment units to the people in the next few days based on the progress of the project.	Even though the money has been released to the contractors for projects, the responsible officers should take action to implement the projects that are being implemented for the people who need to be given special attention.

50 treatment plants were to be established under the initial phase of the contract, and the estimated value was Rs.209 million. Although a sum of Rs.111 million had been paid to the contractor in the years 2021 & 2022 through the National Community Water Supply Department without considering the physical progress of the contract. It was observed that not a single water purification system was made operational till 31 December 2022 and water had not been provided to kidney patients.

- (d) A sum of Rs.106 million had been paid to the contractor and Rs.3 million had been paid to the consultancy firm out of the provision of Rs.384 million for constructing 300 units of concrete panel houses for families in North and Eastern Provinces under the Rural Housing and Construction and Building Materials Industry Development Division, by 31 December 2022. Although the amount paid was 28 percent of the total cost, the physical progress was only 4 percent. That was, the number of completed houses was only 12. The total agreed amount had been paid to the contractor without correcting the deviations from the specifications and errors mentioned in the final evaluation report for 12 constructed houses given by the technical consultancy firm on 12 January 2022. Further, the contract had been terminated with immediate
- The contract was terminated on 22 of February 2023, as the contractor could no longer continue the project. Accordingly, Arrangements were made to encash the mobilization advance of Rs.68.93 million and the performance guarantee of Rs.19.2 million.
- The money should be released according to the construction progress.

effect, due to the violation of the clauses of the agreement, the necessary preliminary steps had not been taken to blacklist the name as per F.R. 507.

### 3.5 Foreign funded Projects

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) <b>Metro Colombo Urban Development Project (MCUDP)</b></p>	<p>Agreed.</p>	<p>The money allocated for the project should be used with maximum efficiency.</p>
<p>The Metro Colombo Urban Development Project was started on 10 July 2012 and was scheduled to be completed on 30 June 2017, with the aim of reducing flooding in the catchment area of the Colombo Water Basin, strengthening the capacity of the local government bodies in the Colombo metropolitan area, and beautifying the city of Colombo, but the project had been extended on several occasions till 30 June 2022. The lending agency of the project had allocated USD 213 million equal to Rs.27,890 million and 93 percent of that amount i.e. USD 198 million equal to Rs.33,392 million and USD 108 million equivalent to Rs.14,141 million had been allocated under government allocations, USD 69 million equal to Rs.8,368 million which represents 49 percent of that allocations had been utilized by 30 June 2022.</p>	<p>The contract of Development of Norris canal has been terminated in late 2022 by mutual consent. Both parties have reached an</p>	<p>Necessary further actions should be taken to accomplish the tasks intended by the project.</p>

Norris Canal improvement project, which was estimated for Rs.353 million and the project had not taken any further action in this regard by the end of the year under review.

agreement that the ministry will carry out the rest of the construction work through the Colombo Municipal Council As soon as it is possible to remove this building.

Although a Real Time Control System Center (RTC) had been established by spending Rs. 77.4 million to establish an Integrated Flood Management System (IFMS) for the Metro Colombo Urban Development Project in the building located at Kirimandala Mawatha in Narahenpita, which belongs to the Sri Lanka Land Development Corporation, but the Supervisory Control and Data Acquisition (SCADA) system had not been installed in the center even by the end of the year under review.

It is being implemented in 2023 with the approved provisions.

Action should be taken to achieve the desired benefits by establishing The Supervisory Control and Data Acquisition (SCADA) system.

**(b) Strategic City Development Program (SCDP)**

The strategic city development project, which had been started on 5 May 2014 and proposed to be completed on 31 December 2019 in 5 ½ years, had been completed on 30 June 2022. Only USD 90 million equal to Rs.16,437 million had been used and Within 8 ½ years from the date of inception out of the USD 202 million equivalent to Rs.27,507 million which was agreed to provide by the lending agency, it was 45 percent of the total value.

Agree. Prevailing conditions had led to reduced utilization of funds.

Necessary further action should be taken to accomplish the objectives of the project.

Under this project, the construction of 16 flood control drain systems identified for flood control in Galle city under this project was not

This consultancy service has been obtained to identify the activities necessary to control the flood situation in

These uneconomic consultant fees can be minimized by identifying projects after a feasibility



possible due to non-acquisition of land. A sum of Rs.21.49 million had been paid for the consultancy services and due to stopping the project in the middle, these expenses had been fruitless.

Galle city, accordingly to develop the canals and conserve the water confluence points, only a few identified canals from this was improved.

Further, the agreed contract value for the construction of Galle Moragoda main canal and temple bypass amounted Rs.845 million and the total length of the canal had been 4250 meters. But assume of Rs.397 million had been spent for this project and only 1850 meters had been completed, and the project had been stopped. Therefore, the people could not get its full benefits. It was observed that the reason for this situation was the inability to acquire the lands required for construction.

Due to the original contract was terminated and re-awarded to another contractor, subsequently arose technical and geographical difficulties, the time for complete the canal was insufficient.

Identifying projects after a feasibility study will help reduce these unnecessary costs.

The lending agency had canceled the loan amount of USD 92 million allocated for the Kandy Multimodal Transport Terminal - (KMTT) project of SCDP due to the project had not been started on time. Therefore, the project was stopped midway.

The project could not be started on time due to the inefficient performance of the planning consultancy firm selected by procurement process for the project and considerable time taken to acquire the required land.

That it is the management's responsibility to select efficient contracting and consulting firms and complete the project effectively.

**(c) Support to Colombo Urban Regeneration project(SCURP)**

Out of the USD 200 million loan agreed to given by lending agency to the project, although 3 1/2 years had been passed since the project was started, the project had used only USD 40 million equal to Rs.10,054 million by 31 December 2022.

This was caused by the Corona epidemic situation in 2022/2021 and the economic crisis in 2022.

The intended tasks should be accomplished within the relevant period.

The cabinet had decided to reduce to USD 70 million from USD 200 million due to inefficiency in the use of funds in the project. Thus, the 3rd phase of the project activities had been suspended and 1,272 had reduced the number of housing beneficiaries. Furthermore, the contribution of the Sri Lankan government, which was USD 42 million, had been reduced by USD 14 million to USD 28 million, private partner contribution for land redevelopment had been completely eliminated as per revised agreement .

It has been decided to send back USD 70 million from SCURP to procure essential medicines and medical supplies.

The loan agreement amendment has been done as per the restructured loan agreement dated 1 July 2022 agreed by the Department of Foreign Resources.

That an efficient fund management system should be implemented and effective measures should be taken to find sources of project financing.

A contract valued at Rs.3,596 million had been awarded for constructing 624 houses of Colombage Mawatha Housing Project to start on 01 of June 2020 and to be completed on 24 August 2023. Although a sum of Rs.1,793 million had been spent by this project for the year under review and a physical performance of 74 percent was expected, but it was observed that Rs.1,902 million i.e. Rs.108.95 million had spent more, but only 52 percent of physical performance had been achieved.

The physical progress of the project had been severely affected due to the global impact of the Corona 19 pandemic and health guidelines.

The works under the contract should be closely monitored in order to carry out the construction as per the agreement.

Furthermore, the Obeysekarapura housing project with an estimated cost of Rs.1, 982 million for the construction of 300 housing units was started on 05 May 2020. Although the project was scheduled to be completed on 21 October 2022, the project had been terminated on 29 March 2022 due to poor performance of the contractor and only 14 percent progress had been achieved by spending Rs.271 million on that

Re-tendering process is in progress.

That the construction work should be closely monitored for completion within the time frame.

time. But the project and line ministry had not taken any steps to restart the project till July 2023.

Also, the construction work of the Applewatta housing project for the construction of 700 housing units had been awarded to a Chinese company for the value of Rs.4, 473 million. The construction of this project was proposed to start on 27 October 2020 and to be completed on 17 October 2023. According to the 2022 annual action plan, it was observed that although the physical performance of this project was expected to be 64 percent, only 22 percent of the physical performance had been achieved by spending Rs.1,145 million.

Furthermore, the Chinese company was awarded the construction work of the Ferguson road housing project to build 750 houses at an estimated value of Rs.4,511 million and the contract was scheduled to start on 20 January 2021 and to be completed on 4 January 2024. Although it had been planned to complete 76 percent of the construction works of the project by 31 December 2022, the physical progress achieved with the cost of Rs.595 million was only 7 percent.

Also, the construction works of Madampitiya housing project to build 700 housing units, at an estimated cost of Rs.4,529 million, had been started on 24 May 2020 and to be completed on 03 May 2024. A physical progress of 33 percent was expected by 31 December 2022, but it was

This was severely affected caused by the Covid-19 epidemic situation and the economic crisis, which led to terminate the project.

The Corona 19 pandemic and the economic crisis had a severe impact on the physical performance of this project.

The Corona 19 pandemic and the economic crisis had a severe impact on the physical performance of this project. Hence extension of time (EOT) is expected.

That corrective action should be taken to expedite the remaining work.

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observed that only 15 percent progress had been achieved at the cost of Rs.1,164 million.

Although 111.5 acres of land was expected to be developed under 11 land development projects under the component 02 of the project implementation manual, by the end of 2022. But only 4 acres of land and infrastructure development had been done and it was a low percentage of 3.58 percent of the targeted amount.

The permits to be obtained from the Sri Lanka Land Development Corporation, the National Building Research Institute, the Environmental Advisory Council, the Condominium Management Authority and the Urban Development Authority for the Fergusson Road housing project have not been obtained even after 2 years have passed since the project started.

**(d) Urban Project Preparatory Facility Project (UPPF)**

According to the loan agreement of the project, the loan amount was USD 4.65 million equal to Rs.883.88 million and the project had been planned to start on 06 March 2019 and end on 31 of March 2022. But by 31 of December 2022, only USD 2.16 million equal to Rs.425.6 million representing 38 percent had been used for project activities. But according to the instructions of the Foreign Resources Department's letter dated 18 August 2020, all operational activities of this project had been suspended from

Currently, it has been reviewed and a related report has been sent back to the National Planning Department (NPD) on 30 January 2023.

The environmental clearances and building permits for Ferguson Road have been delayed due to drainage and sewage treatment issues related to the project.

Arrangements have already been made to complete the project formulation work through technical assistance provided through a grant from the Asian Development Bank on the advice of the Department of National Planning.

Action should be taken according to the agreement.

Before starting the projects, lands which relevant permits can be obtained and eligible for the project should be selected.

Actions should be taken to achieve the objectives identified under the project.

that date. Therefore, 17 out of 38 preliminary reports and 18 out of 38 final reports to be provided by 02 consulting organizations by 31 December 2020 had not been received. Also, 05 out of 29 preliminary reports and 28 out of 29 final reports to be given by a consulting firm on 28 February 2021 had not been received. When the project had been stopped, the financial and physical progress achieved by the project was 42 percent and 68 percent respectively.

However, according to the Asian Development Bank letter dated 27 April 2022, the project completion date had been extended to 31 March 2024, but a detailed action plan to complete the remaining works of the project had not been prepared and implemented.

Detailed action plan and its progress is reported accordingly.

That the remaining tasks under the project should be identified, and a detailed action plan should be prepared to achieve those goals, and its activities should be implemented accordingly.

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

The Anuradhapura Integrated City Development Project had been started in the year 2016 and only Rs.2, 164 million (21 percent) of the agreed loan amount of Rs.10,025 million had been utilized by the project up to 31 December 2022. Hence, the credit facility had been extended till 30 September 2023.

The project is being evaluated by the Treasury to continue the project at a lower level after negotiation with the donor.

Action should be taken to complete the work according to the work plan without additional cost.

The Canteen and equipment at Anuradhapura Railway Station was constructed at a cost of Rs.98 million under the Railway Plaza Development Programme of this project and handed over to the Railway Department in the year

The project decided to involve with urban development to find a solution and ensure its sustainability.

Action should be taken to sign a long-term contract with the Railway Department.

2022. However, the newly built canteen was not used until 31 May 2023.

A sum of Rs.288 million had been spent on the initial work of constructing the North and South Multimodal Transport Centers, but due to the suspension of those projects, the expenses incurred had been idle.

The project could not be carried out as planned due to the financial crisis faced by the country and the suspension of the loan amount by the lending Agency, The Anuradhapura Municipal council and Urban Development Authority will use the land acquired for the North Multimodal Transport Center for future development and therefore this land acquisition will not be wasted.

Action should be taken to expedite the completion of the remaining works on time.

Although, 90 percent of the renovation work of the Surapura Open Air Theater and the Sri Lanka Broadcasting Corporation Open Air Theater had been completed, the theaters could not be used, due to the main equipment and goods (lights, seats) had not been provided until 31 May 2023. Therefore, the expenditure of Rs.285.76 million which had been spent on construction had become a fruitless expenditure.

Funds were not available to complete the final works, as funding was temporarily suspended by AFD.

The rest of the work should be completed that it can be used.

### 3.6 Procurements

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The State Ministry of Urban Development, Coastal Conservation, Waste Disposal and Community Cleanliness had selected a contractor using the emergency procurement method to partition the 17 and 18 floors of	The construction was assigned to the Urban Development Authority as an emergency need contrary to the normal procedure as per Section 3.8.(a)(i) of the Procurement Guidelines.	Procurement should be done after providing the allocation in accordance with the provisions of the Procurement Guidelines.

Suhurupaya Building to set up the offices and Record room without ensuring that the required funding is adequate as per paragraph 4.1.1(c) of the Procurement Guidelines. Although the contractor had completed the construction work on 27 December 2021, only a sum of Rs.5.95 million had been paid during the year under review due to non-availability of funds.

It was also observed that approval for the selection of the contractor for this work had been obtained after completing the works by relevant contractor, contrary to the paragraph 2.4.1(a) of the Procurement Guidelines.

### 3.7 Assets Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The luxury jeep number KX-4890 under the State Ministry of Urban Development, Coastal Conservation, Waste Disposal and Community Cleanliness had been assigned for the use of the then State Minister on 21 April 2022. But the vehicle had not been returned to the Ministry when he resigned from the post of State Minister on 09 May 2022.	Although the State Minister was personally informed on many occasions to return the vehicle in a formal manner, no good response was received.	Necessary arrangements should be made to get back the vehicle or hand it over to the current ministry.
(b) 08 vehicles owned by the Estate Housing and Community Infrastructure Division and one vehicle owned by the Urban Development Division were temporarily assigned to the Soumya Murthy Thondaman Memorial Foundation, the New Village Development Authority for Plantation Zone and State	08 vehicles have been given to 02 institutions operating under the Ministry of Water Supply and Estate Infrastructure Development. The service and repair expenses of those vehicles have been paid by the Ministry and the expenses has been reimbursed later.	Action should be taken to utilize efficiently after determining the need of vehicle fleet to the ministry.

Ministry of Gems and Jewelry. Necessary arrangements are being made to take over or hand over the vehicle owned by the Urban Development Division. But according to the public Finance Circular No. 01/2020 dated 28 of August 2020, those vehicles had not been returned to the Ministry by the end of the year under review.

- (c) 03 vehicles owned by Rural Housing and Construction and Building Materials Industry Development Division which was given to Lanka Building Materials Corporation, had been underutilized and parked at that premises, and action had not been taken as per the instructions of Public Finance Circular No. 01/2020 after receiving those vehicles to the Ministry. A committee had been appointed on 15 May 2023 to get recommendations regarding those 03 vehicles. It has planned to take necessary actions accordingly. Action should be taken with regarding to the underutilized assets according to the circular instructions.
- (d) A motor vehicle valued an estimated cost of Rs.7 million remained idle for a period of 1 ½ years due to non-repairing. Arrangements will be made to bring the vehicle to the ministry after the repairs are done promptly. That available economic resource should be used efficiently.

**3.8 Management weaknesses**

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The Ministry had failed to recover the loss of Rs.4 million in accordance with F.R 105 regarding a vehicle under the Estate Housing and Community Infrastructure Division, which was involved in a road accident.	After the accident, the repair cost is reimbursed by the insurance cover and the unreimbursable amounts are recovered from the parties responsible for the accident, and in other cases written off.	Action should be taken with regarding the damaged vehicles according to F.R.105.
(b) The bank accounts opened in the name of the abolished State Ministries had not been closed till the date of audit As per paragraph 18 of the Budget Circular No. 06/2022 dated 21 September 2022.	It has been presented to obtain the necessary approval to maintain as sub-bank accounts under the Ministry.	Action should be taken as per circular provisions expeditiously.



- (c) According to the National Planning Department letter No. NPD/UD/2018/PP/11 (Urban Hub) dated 25 June 2019, Rs.29.73 million or 15 percent of the total cost of the Katubedda market building construction project should be incurred by the Moratuwa Municipal Council, but the Urban Development Division had paid the entire amount to the contractor and the amount to be recovered from the Moratuwa Municipal Council had not been recovered until 31 March 2023.
- It was informed that it is difficult to pay the money due to the current financial situation of the municipal Council.
- Action should be taken to charge the agreed amount by negotiating appropriately.

#### 4. Achievement of Sustainable Development Goals

The following observation was made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although adequate safe housing and habitat improvement for all by the year 2030 had been identified as a sustainable development goal, the progress achieved was less than 8 percent of the target amount at the end of the year under review.	New construction has been temporarily halted, and it was not possible to reach the desired goals due to the lack of capital provision and imprest for the rest of the half-completed houses.	It is the responsibility of management to identify achievable goals and to work towards achieving them.

#### 5. Good Governance

##### 5.1 Rendering of Services to the Public

The following observations are made

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The rural housing and construction and building materials industry development section had built houses without acquiring private and government owned lands and settled the beneficiaries and due to the delay in granting the deeds to the	The Land Reforms Commission has not provided the relevant deeds to the National Housing Development Authority.	Action should be taken to acquire relevant deeds from the land Reforms Commission and distribute the legal ownership to the house owners and to pay compensations to the land owner's expediasly.

residents, the home beneficiaries had not get the legal ownership to the houses. Further, the lands had been acquired 20 years ago, but the compensation to the respective land owners had not been paid to the end of the year under review.

- (b) A citizen's charter had not been prepared and implemented by the Ministry according to the Public Administration Circular No. 05/2008 and 05/2008 (1). It has planned to take necessary action to prepare one citizen's charter for this ministry in the future. A citizen's charter should be prepared by the ministry according to the circular.