

## **Support to Colombo Urban Regeneration Project (SCURP) - 2023**

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The audit of financial statements of the Support to Colombo Urban Regeneration Project for the year ended 31 December 2023 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 Article 3.4.3 of the Loan Agreement No. L 0081 A 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 I consider should be reported to Parliament appear in this report

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement, the Ministry of Urban Development and Housing 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 condition of low - 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. The activities of the project are implemented under 03 components namely Housing construction, Land Development, technical support and Project management.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 287 million equivalent to Rs 50,460 million and out of that US\$ 200 million equivalent to Rs.35,163.7 million was agreed to be financed by the Asian Infrastructure Investment Bank (AIIB). The balance amount of Rs 14,417.2 million is expected to be financed by the Government of Sri Lanka. Further, balance amount of US\$ 5 million equivalent to Rs. 879.1 million agreed to finance by the Private Partner.

The Project had commenced its activities on 22 July 2019 and scheduled to be completed by 30 June 2025. Further according to the revised loan agreement dated 01 July 2022, the Asian Infrastructure Investment Bank (AIIB) had changed the scope of original activities due to releasing the allocation of funds amounting to US\$ 70 million to the emergency health component.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control 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. Comments on Financial Statements

### 2.1 Accounting Deficiencies

Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
Although Treasury Bonds had been issued for the contractor's payable amount of Rs.511.81 million during the year under review it had not been disclosed in the Financial Statements.	511.81	Issued Treasury Bond of Rs.511.81 Mn. will be disclosed in the Financial Statements for the year 2024.	Relevant disclosure should be made in the Financial Statements

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2023		Delay/ Audit Issue	Reasons for delays	Response of the Management	Auditor's Recommendations
		Expected physical performance percentage	Performance achieved percentage				
(a)	Colombage Mawatha housing unit	87	80	The contract had been awarded to an engineering company at an estimated value of Rs.3,595.56 million to construct 624 housing units on 01 June 2020. The project had planned to be spent Rs.3,609 million as at 31 December 2023 and total cost of Rs.3595.55 million had been spent thereon however only 80.27 percent	Due to Economic crisis economic was directly affected in the contractor's cash flow. prevailed in the country.	Economic crisis was directly affected to the contractor's cash flow.	Action Should be taken to achieve the expected target with in the time frame.

progress had been achieved against the expected target of 87 percent.

(b)	Obesekara pura housing unit	Terminated on 29 March 2022	<p>The Construction had been awarded to construction company at an estimated value of Rs. 1,723.35 million for the construction of 300 housing units, and the Construction work had been started on 5 May 2020 and expected to be completed on 21 October 2022. This project had been stopped on 29 March 2022 due to poor performance of the contractor. Although a sum of Rs. 296 million had been paid, however any action had not been taken to commence the project up to now.</p>	Due to termination of the project.	It was temporarily hold considering the fact that decision of DAB will affect awarding of a new contract.	Action Should be taken to re commence the project.
(c)	Applewatt a housing unit	100 30	<p>It was proposed to build 700 housing units through this housing project, and</p>	Due to the impact of covid pandemic, fuel shortage and	Poor performance of the selected contractor negatively affected to	Action Should be taken to achieve the expected target with in the time frame.

contract had financial the project  
 been awarded crisis. progress.  
 to China  
 Railway  
 Group at an  
 estimated  
 value of  
 Rs.4,473  
 million.  
 The  
 Construction  
 work had been  
 started on 27  
 October 2020  
 and expected  
 to be  
 completed on  
 17 October  
 2023.  
 According to  
 the annual  
 action plan, 35  
 per cent of the  
 total  
 construction  
 work was  
 expected to be  
 completed, and  
 29.33 per cent  
 progress had  
 been achieved  
 at the end of  
 the year under  
 review.  
 Further, It was  
 observed that  
 project had not  
 taken action to  
 expedite the  
 work to  
 complete the  
 project in  
 scheduled  
 time.

(d) Ferguson Road housing unit	16	12	<p>Construction Delay in Due to the Action Should be          had been design and impact of the taken to achieve          awarded to technical covid pandemic, the expected target          China Civil submisson were impacted with in the time          Engineering and to the frame.          Corporation reviewing. Contractor's          &amp; China performance.</p>
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Railways as at estimated value of Rs. 4,511 million for constructing 750 houses. The contract commenced on 20 January 2021 and scheduled to be completed on 04 January 2024.

However the progress was 12 percent against the target progress of 16 percent according to the annual action plan as at 31 December 2023. Due to delay in pilling work, considerable delay in design and technical submission and reviewing mainly affected that situation.

### 3.2 Funds Utilization

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) Due to inefficiency fund utilization by the project, the cabinet had decided to reduce the loan amount by US\$ 70 million. As a result, project activities of phase 3 had been suspended and number of housing beneficiaries had been reduced by 1,272.	As a result of reallocation of funds, Phase 3 of the project was not implemented.	Loan amount should be utilized within the specific time period.
(b) According to the original cost estimate GOSL contribution was US\$ 42 million. However it had been reduced by US\$ 14 million to US\$ 28 million. Further, the private partner contribution for land redevelopment had been removed totally according to the revised agreement.	Due to allocation of US\$ 70Mn to Ministry of Health, US\$ 130Mn was available for the completion of this project.	Action should be taken to achieve project objectives.
(c) A commitment fee of Rs. 479 million and interest of Rs.1, 141.97 million had been paid by the project up to 31 December 2023 however the project had only utilized US\$ 58.75 million out of the loan amount of US\$ 130 million due to poor performance of the project.	Work of all sub projects had been commenced in 2020 and 2021 and this period was badly affected the progress of the project due to Covid 19 pandemic hence could not be able to achieve the expected progress.	Action should be taken to utilize loan fund effectively.

### 3.3 Contract Administration

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The contractors of 04 housing construction projects had claimed an interest payment of Rs. 153 million for delaying payments on bills. That amount had been paid to the contractors due to poor cash management of the project and it will directly affected to the cost overrun.	Due to economic crisis faced by the country, General Treasury did not release GOSL portion on time and project had no alternative rather than delay the contractors' payments.	Immediate action should be taken to settle outstanding bill

### 3.4 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(a) It was observed in physical audit verification that only the foundation parts and the parts related to raising the pillars for the construction of a 14-storey building had been constructed and the construction work of the Obeysekarapura project had been abandoned. The wire and concrete parts used for the construction had been dead and decaying. As a result, the expenditure of Rs. 296 million incurred until 29 March 2022 had become a fruitless expenditure.	Constructed items will be used in construction of balance works of the Obeysekarapura project and that will be considered in the retendering process.	Corrective action should be taken to minimize the additional cost.
(b) It was essential to connect the sewerage of the housing projects to the Colombo Municipal Sewerage System, however the sewage of the project had been refused to be connected to that system by Colombo Municipal Council due to the existing problems in the sewerage system, Moreover, State Engineering Corporation has given a cost estimate of Rs. 2 billion on 12 January 2024 for a new sewerage system as a separate construction. Accordingly, the project had to bear an excessive cost for the work and that should be planned before starting the project. Further it was observed in the audit that the delivery of houses to the beneficiaries of the Stadiumgama housing project, which has achieved 96 percent performance on work, will be delayed until 26 June 2026.	Considering the ground levels of the site, CMC proposed to construct a sewage pumping station at the site. A feasibility study was carried out by an external consultant to finalize the sewer arrangement. The External Consultant proposed a gravity sewer pipeline instead of the sewer pumping station.	Action should be taken to achieve the project objectives with in the project period.

### 3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Although PMU should be established and updated a support installing and updating project monitoring software and Programming or Updating Database System for the project management unit at the beginning of the project with an estimated value of Rs.88 million and the software system had not been installed up to 10 June 2024.	Procurement related works to prepare the database has been commenced.	Immediate action should be taken to install the software



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|------|---|---|--|
| (b)  | <p>Although the Project Director should always be recruited on full time basis in order to ensure effective project management according to the paragraph 2.3.2 of the Management Circular No. 01/2019 dated 05 March 2019, project had not been recruited a full time Project Director. Further it was observed in audit that situation mainly affected to non-achieving the expected objectives with in the project period.</p>   | <p>In the absence of full time Project Director, arrangement has been made to appoint project director on acting basis until permanent project director being appointed.</p>  | <p>Project Director should always be recruited on full time basis in order to ensure effective project management.</p>             |
| (c ) | <p>According to the project implementation manual it was expected to be developed 111.5 acres of land by the end of the year 2022 under 11 land development projects. However this component had been stopped according to the project change document dated 13 June 2022. However, the audit could not be revealed the actions taken to protect the land and redevelop the infrastructure facilities of the said land. Hence, the project had failed to prepare and implement plans to increase the efficiency of land use through investments in the construction of affordable houses and land redevelopment, as per the project objectives.</p> | <p>Due to restructuring of the scope of work and reduction of land amount, land development work under component 2 has been reduced. Presently this component has limited only for the consultancy for land improvement. However PMU is seeking possibility to fence and secure the proposed lands to be released after relocation of the families who are living in identified land for component 2. Further due to scope reduction of component 1 proposed land for redevelopment up to 50 Acers.</p> | <p>Necessary action should be taken to prepare and implement plans for land development. as per project implementation manual.</p> |