

Support to Colombo Urban Regeneration Project (SCURP) - 2024

The audit of financial statements of the Support to Colombo Urban Regeneration Project for the year ended 31 December 2024 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 the provisions of Section 4.09 (b) of General conditions in the schedule 2 Section II (b)(3) 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 the 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 Section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024 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
According to the paragraph No. 09 of Sri Lanka Accounting Standards 23, borrowing cost that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. However the commitment fee and interest of the loan amount of Rs.2,594.62 million had not been accounted in the financial statements as at 31 December 2024. As a result, working progress in the financial statements had been understated by similar amount.	2,594.62	Regarding both interest and commitments fees we have made in the Notes to the Financial Statements.	Adhere to the Sri Lanka Accounting Standards.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2024	Expected physical performance percentage	Performance achieved percentage	Delay/Audit Issue	Reasons for delays	Response of the Management	Auditor's Recommendations
(a)	Colombage Mawatha housing unit	100	96.84		The contract had been awarded to Maga Engineering Company at an estimated value of Rs. 3,595.56 million to construct 624 housing units on 01 June 2020. Contingency provision had been increased up to 93.61	Poor performance	The Project is completed all most 97 percent and remaining 3 percent of work is delay due to construction of sewer connection to CMC main sewer	Action Should be taken to achieve the expected target

percent for the above project. Although the project had to be completed 17 December 2024 according to time extension it had not been completed up to 31 December 2024. A sum of Rs. 5,145.03 million had been expended but 96.84 percent progress had been achieved against the expected target of 100 percent and there are problems in settling the housing beneficiaries in those 624 housing units after the completion of the project due to the sewerage system problems.

system and it also commenced and could be managed within the anticipated cost of the project. with in the time frame.

(b)	Stadiumgam a housing unit	100	98.83	Although the project was scheduled to be completed by September 2024, it was extended up to 31 December 2024, but only 98.83 percent of the project was completed and an expenditure of Rs.9,039.12 million was incurred. Accordingly, it was observed that the project work had not been completed as at 31 December 2024. Furthermore, the said project had a progress of 96.66 percent as at 31 December 2023, had achieved a progress of only 98.83 percent and that is, about 2 percent more than the previous year as at 31 December 2024, but the project could not be completed due to the sewerage connection problem.	Poor performance	The project was in the process of finding out a most suitable solution, at a minimum cost to the project and finally found a solution with the assistance of a third party.	Action Should be taken to achieve the expected target with in the time frame.
(c)	Applewatta housing unit	93	40.47	The contract had been awarded to China Railway 25	Poor performance	Compared to previous	Action year, should be

Corporation Ltd. for the design and construction work of the Applewatta 700 housing project and it was scheduled to commence on 27 October 2020 and to be completed on 17 October 2023, with an estimated cost of Rs. 4,473.50 million. According to the 2024 action plan, 93 percent of the total construction work of this project was expected to be completed, but it was observed that only 40.47 percent of the performance had been achieved as at 31 December 2024. The said project, which was to be completed on 17 October 2023, had been granted 8 extensions of time and up to 27 June 2025. It has achieved only 11.14 percent of low performance for the year 2024, but it had not been considered in granting time extensions to the project, whether the project could be completed within the scheduled period.	mance	though it is not up to the expected level. The engineer and employer has already taken all possible measures to overcome the situation.
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(d)	Overall project	61.98	40.47	The overall project implemented for the period 2019-2025, with 25 October 2025 as the estimated completion date. Even though the entire project was scheduled for completion in 2025, the extension of time granted up to 25 October 2025 under the advance program only for construction work was questionable from an audit. The project had only been achieved a progress of 40.47 percent against the	Poor performance	As per the revised loan agreement, project implemented period has been extended till December 2027	Action should be taken to achieve the target progress.
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target progress of 61.98 as at 31 December 2024.

(e)	Ferguson Road housing unit	70	13.21	The construction of 750 housing units in Ferguson project had been awarded to China Civil Engineering Contraction Corporation and China Railway 25th Group Joint Venture (Pvt) Ltd at an estimated cost of Rs. 4,510.91 million, it was scheduled to commence on 20 January 2021 and to be completed on 04 January 2024. The progress of the project was only 13.21 percent of the target progress of 70 percent as at 31 December 2024. It was observed that the progress had been increased by 1.43 percent when compared with the previous year.	Poor performance	Progress of the project is far below the expected level of completion due to rectification of some work.	Action Should be taken to achieve the expected target with in the time frame.
(f)	Madampitiya a housing unit	69	44.2	It was expected that 700 housing units would be constructed under the Madampitiya Housing Project and the work was awarded to Thudawa Brothers Private Limited at an estimated cost of Rs. 4,529.26 million with a proposed commencement date of 24 May 2021 and completion date of 03 May 2024. Although the completion date for this project was extended to 16 December 2024, only 44.2 percent of the project had been completed as at 31 December 2024. It was observed that the increase was only 24.34 percent compared to the previous year. It was further observed that although drainage	Poor performance	Contractor has taken steps to accelerate the progress of the project as advised by the PMU and by end of April 2025 progress of the project was 52.23 percent . Necessary applications and forms had been submitted with regard to the sewer line of the Madampitiya Housing Project and rest of the work will be done accordingly.	Action Should be taken to achieve the expected target with in the time frame.

clearance had been received from the Colombo Municipal Council, the problems that may arise regarding the Stadiumgama and Colombage Mawatha projects due to the fact that no agreement had been made with regarding the sewer line connection..

3.2 Funds Utilization

Audit Issue	Response of the Management	Auditor's Recommendation
(a) According to the original cost estimate GOSL contribution was US\$ 82 million. But it had been reduced by US\$ 28 million. Further, the private partner contribution amounting to US\$ 5 Million for land redevelopment had been removed by the revised agreement.	GOSL contribution was reduced from US\$ 42 million to US\$ 28 million by US\$ 14 million.	Action should be taken to utilize the funds effectively.
(b) The project had paid a commitment fee of Rs.562 million and interest of Rs.3,653.17 million up to 31 December 2024 however the project had only utilized US\$ 77.28 million out of the loan amount of US\$ 130 million due to poor performance of the project.	AIIB releases loan disbursements based on physical progress of the project. On the other hand, loan interest also needs to be paid on the amount of loan disbursed by AIIB.	Action should be taken to utilize the funds effectively.
(c) The land development work which was expected to be performed under component 02 had been stopped due to the reduction of the value of Rs.45 million up to Rs.11 million as per the project change document.	It was decided to eliminate the land development activities and continue to operate activities related to land securing as per the revised loan agreement.	Action should be taken to achieve the project objectives.
(d) The contractors of 04 housing construction projects had claimed an interest payment of Rs. 100.38 million for delaying payments on bills. That amount had to be paid to the contractors due to poor cash management of the project and it will directly affected to the cost overrun.	Interest claims due to payment delays was occurred as contract payments need to be paid from GOSL component was not received timely manner to settle contractors' payments.	Action should be taken to settle outstanding bills without additional cost.

3.3 Contract Administration

Activity	Audit Issue	Response of the Management	Auditor's Recommendation
(a) Colombage Mawatha and Stadiumgama 1624 housing units construction projects	(i) Standing Cabinet Appointed Procurement Committee (SCAPC) had decided to do approach road of the Colombage Mawatha and Stadiumgama housing projects as separate procurement activity on 14 October 2024. Although the approval had been granted for this by Cabinet Decision No/24/2255/814/014 dated 23 December 2024, action had not been taken accordingly.	It is now in progress.	Adhere to the Cabinet decision.
	(ii) Although Rs. 5,145.03 million and Rs. 9,039.12 million had been spent and 96.84 and 98.83 percent performance had been achieved on the Colombage Mawatha and Stadiumgama housing projects respectively, those projects had not been completed as at 31 December 2024. Further it was observed that there were still problems in settling the beneficiaries in those 1624 houses even after the work was completed due to the sewerage problem.	Once completion of the sewer pumping station, the project is able to resettle housing beneficiaries as planned.	Action should be taken to settle the beneficiaries.
(b) Applewatta and Ferguson 1450 housing units construction projects	The contractor's financial capacity had been strengthened by increasing the advance payment from 10 percent to 20 percent by renewing the agreement and providing an advance of Rs. 389 million and 392.25 million on 31 December 2024 for the Applewatta and Ferguson projects, which had achieved very low performance.	Release an additional advance of 10% on contract value through an Escrow account after obtaining necessary bank guarantees.	Action should be taken to expedite the project works.
(c) Obeysekarapura 300 housing units construction project.	(i) It was observed during the study of the decision given by the Dispute Avoidance and Adjudication Board on 21 August 2023 that the project had to pay to the contractor a sum of Rs.294.5 million due to the cancellation of the contract agreement with Subhasinghe Constructions Company without	DAAB decided that contractor is able to proceed with his claim of approximately Rs. 566 million plus legal interest due to wrongful termination	Disciplinary action should be taken to officers who involved these matters.

systematically following the steps indicated in the sub-conditions mentioned in Condition No. 15.2 of the contract agreement.

of the contract.
The employer has appointed a claim review committee to negotiate the claim in dispute. Finally, both parties agreed to Rs. 294.53 million as final settlement.

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| <p>(ii) In accordance with 5.4.8.(a) of the Procurement Guidelines, in a contract for works, a performance security must be submitted to safeguard the procurement entity in case of breach of contract by the contractor. However, it was observed that the safeguard of the procurement entity had not been preserved due to the performance security of Rs. 103 million had been fully refunded to the contractor which had been en-cashed due to non-completing the work within the stipulated time.</p> | <p>Rs 294 million paid as a result of wrongful termination of the contract and therefore, the employer has no right to hold the performance guarantee further on terminated contract.</p> <p>Government procurement Guidelines should be followed.</p> |
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3.4 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
It was observed that 98,091.14 kg of iron valued at Rs.17 million which had been purchased for the Obeysekarapura Housing Project had been left unused and decaying at the Sethsiripaya premises for three years.	All efforts had been taken to dispose the stock of scarp.	Action should be taken to minimize the loss to the project.

3.5 System and Controls

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although a Project Monitoring Software and Programming or Updating Database System for Resettlement had to be established and updated for the Project Management Unit as per Section II	To Present Procurement Time Schedule (PTS), consultancy service planned to be obtained in October 2025.	Immediate action should be taken to install the software.

B(i) of the Loan Agreement, the software system proposed to be implemented at an expected cost of Rs. 64.87 million had not been established as at 31 December 2024.

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| (b) | <p>Actions had been taken to formulate policies for the Urban Regeneration Program within 6 months of the commencement of the project as per the loan agreement. The above policy report had been prepared by paying Rs. 83 million to Vision RI Concession (Institution) but it had not been implemented with the approval of the Ministry of Urban Development and Housing and the Cabinet up to the end of the year under review.</p> | <p>Now it is in the process of preparation of Cabinet paper.</p> | <p>Actions should be taken to obtain cabinet approval.</p> |
| (c) | <p>Although the Project Director should always be employed full-time as per paragraph 2.3.2 of Management Circular No. 01/2019 dated 05 March 2019, project had been recruited a part-time (1/3 allowance) project director more than one year. Further, 18 officers had been employed in part-time (1/3 allowance) basis and 13 posts were in staff grades. It was observed that project staff was continuously leaving their posts and being reappointed, and this situation had a severe impact on the overall low performance of the project.</p> | <p>Action has already been taken to recruit full-time officers where necessary.</p> | <p>Comply to the management circular 01/2019</p> |
| (d) | <p>It was expected to be developed 111.5 acres of land under 11 projects for the development of public or commercial land or the establishment of basic infrastructure for land reuse under the second component according to the project implementation manual. This 2nd component was discontinued due to insufficient allocation for land development as per the Project</p> | <p>As a result of restructuring of the project due to reduction of loan from US\$ 200 million to US\$ 130 million, land development activities had been eliminated and funds have been allocated only for the land securing and consultancy for land development.</p> | <p>Actions should be taken to develop the lands as planned.</p> |

Change Document dated 13 June 2022. However, although increasing land use efficiency in the city of Colombo had been identified as one of the objectives of the project, no actions had been taken to provide infrastructure facilities and develop the vacant lands, as well as to protect those lands after settling the housing beneficiaries in those housing projects, it had not been achieved.