

## **Urban Development Authority – 2012**

-----

### **1. Financial Statements**

-----

#### **1.1 Qualified Opinion- Group**

-----

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Urban Development Authority and its subsidiaries as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Qualified Opinion- Authority**

-----

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Urban Development Authority as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Comments on Financial Statements**

-----

##### **1.2.1 Consolidated Financial Statements**

-----

The consolidated financial statements had been prepared based on the unaudited financial statement for the year 2012 of Peliyagoda Warehouse Complex Company, a subsidiary of the Authority.

##### **1.2.2 Debenture Issue**

-----

For the purpose of raising funds for the national program to construct 65,000 permanent residences for the people living in shanties in Colombo City, a debenture of Rs.10 billion to be redeemable in 5 years had been issued by the Urban Development Authority in October 2010 and the General Treasury had agreed to provide interest on debenture for the period of first 3 years.

### **1.2.3 Sri Lanka Accounting Standards**

-----  
The following observations are made.

(a) Sri Lanka Accounting Standards- No:01

-----  
Creditor balances aggregating Rs. 903,758 had been set off against the debtor balances aggregating Rs. 8,287,857 at the time of writing off of such balances, contrary to the provisions made in the Accounting Standards.

(b) Sri Lanka Accounting Standards- No:16

-----  
The following observations are made.

- (i) According to the Standards, fully depreciated assets of the Authority which are still in usable condition should be revalued and the adjustments should be made for the useful life of such assets in the accounts. However, action as required by the Standards had not been taken in connection with 72 vehicles procured at a cost of Rs. 90,369,030 which were fully depreciated and used by the Authority at the end of the year under review.
  
- (ii) Action had not been taken to revalue the land and buildings owned by the Authority and leased out to external parties for over 50 years to bring the values of such assets into account.

(c) Sri Lanka Accounting Standards- No:24

-----  
Although bad debts amounting to Rs. 33,099,872 had been written off during the year under review as losses and writing offs, such fact had not been disclosed in the financial statements.

- (d) Sri Lanka Accounting Standards- No:26

-----  
Although a Retirement Benefit Plan is required to be prepared by the Authority, action had not been taken thereon.

#### **1.2.4 Accounting Deficiencies**

-----  
The following observations are made.

- (a) According to the financial statements, the balance of the capital work -in – progress related to development projects carried out by the Authority amounted to Rs.6,032,758,837 and recurrent expenditure such as fuel, travelling, repairs etc which were not directly related to the development purposes had been included therein. As a result, value of the capital work- in progress shown in the Balance Sheet as at 31 December 2012 had been overstated.
- (b) A sum of Rs. 52,931,659 incurred in connection with 10 small and medium scale projects implemented by the Authority on behalf of the external parties which cannot be considered as assets of the Authority had been shown under capital work- in-progress.
- (c) Out of the commission amounting to Rs. 64,305,777 paid on bank guarantees during the months of June and November of the year under review, a sum of Rs. 50,967,170 was related to the next years. However, the total amount of commission had been capitalized during the year under review without considering the above matter and as a result, the value of capital work- in-progress had been overstated by Rs. 50,967,170.
- (d) Investments had not been made separately on retirement gratuity payable amounting to Rs. 115,921,061 and compensation on lands acquired and interest to be payable thereon amounting to Rs. 729,646,332 at the end of the year under review.

- (e) The value of land acquired by the Authority and subsequently alienated had not been accounted. As a result, the accuracy of the amount of Rs. 729,646,332 shown as the compensation payable could not be verified in audit.

### **1.2.5 Contingent Liabilities**

-----

The contingent liabilities likely to be arisen in future due to calculation of the contributions contrary to the provisions made by the Employee's Provident Fund and Employee's Trust Fund had not been disclosed in the financial statements.

### **1.2.6 Un reconciled Control Accounts**

-----

The balances shown in the accounts were not reconciled timely with the corresponding schedules and as a result there were differences aggregating Rs. 8,058,925 related to balances shown in 06 Ledger Accounts in the financial statements. The compensation on lands acquired and interest thereon amounting Rs. 5,417,109 which overstated than the balance shown in the corresponding schedule had also been included therein.

### **1.2.7 Unexplained Differences**

-----

Even though the provision for bad debts amounting to Rs. 13,856,162 had been made in previous years on the balance of work- in - progress remained as at 31 December, details of calculations made thereon had not been explained for audit.

### **1.2.8 Accounts Receivable and payables**

-----

The following observations are made.

- (a) A sum of Rs. 6,707,089 had to be paid during the year under review to the National Building Research Organization on various services obtained under 09 projects implemented by the Authority. It was observed that some of such balances were remained unsettled over 15 years.

- (b) A building at the premises of Charmas Granary owned to the Authority had been allowed to be used by the Department of Police on rent basis and rent amounting to Rs. 3,031,534 for the year under review had not been recovered.
- (c) The Rest House owned to the Urban Council of Ambalangoda which was vested in the Authority for administration purposes had been allowed to outside party to continue the operations and a sum of Rs. 16,139,095 receivable over 10 years since September 1997 to 2007 had remained outstanding at the end of the year under review. Further, the Authority had allowed to continue the operations of the Rest House to the Southern Provincial Council on the request of the said Council and after that the Rest House Building had been demolished completely.
- (d) Action had not been taken to settle the balances of sundry deposits aggregating Rs. 56,161,902 which remained at outside parties over 03 years.
- (e) The assessed value of Rs. 406,483,000 of the Water's Edge Hotel vested in the Authority in 2008 under a Court order required to be paid to the company which was the owner of the Hotel had not been settled even as at the end of the year under review. Net Profit of Rs. 130,323,032 had been earned by the Hotel from its operations during the year under review.
- (f) Advances aggregating Rs. 186,312,726 paid to the contractors had remained unrecovered over 03 years. The possibility of recovering such balances could not be ruled out in audit due to absence of details on physical progress or the bills related to these contracts.
- (g) The Authority had transferred the rights of the land of bus stand at Balangoda Town in 2008 to the Urban Council, Balangoda. However, action had not been either taken to recover the assessed value of the land amounting to Rs. 40,000,000 from the Urban Council, Balangoda or account it as a receivable.

- (h) Even though the Board of Directors had decided to write off the balances of advances made on foreign visits of the staff amounting to Rs. 1,576,216 , fuel advances amounting to Rs. 240,379 and other staff advances amounting to Rs. 1,523,961 etc, adequate action had not been taken to recover such balances. However, the Chairman had informed that the decision had been taken by the Board based on the factors such as some of the officers not in the service at present, lack of source documents as certain transactions were over 10 years and certain balances arisen due to accounting errors etc,
- (i) The balances aggregating Rs. 2,623,531 shown as “Sundries” under rents receivable had not been identified accurately.

### **1.2.9 Lack of Evidence for Audit**

-----  
The following observations are made.

- (a) Several negative balances had been included in the balance of festival advances to be recovered amounting to Rs.537,551 and further information thereon had not been furnished to the audit.
- (b) The schedule presented by the Authority on fully depreciated motor vehicles had indicated that the cost of motor vehicles aggregating Rs. 52,639,788 without registration numbers. Further, it was observed that the Authority had not possessed adequate information to prove either such motor vehicles are still being used or already disposed.
- (c) It was mentioned that the motor vehicles valued at Rs. 3,136,274 had been disposed prior to the year under review, the detailed schedule thereon had not been furnished for audit.
- (d) Proper controls on application of journal entries in the Ledger Accounts had not been stipulated in preparation of the financial statements of the Authority. Therefore, the Journal entry No 21386 made at Rs. 22,476,895 had not been properly authorized at the time of carrying out the audit and respective amount of the journal entry had been taken in to the account as Rs. 98,855,289.

- (e) The schedules of fixed assets such as investment properties and land and buildings of the Authority revalued during the year under review at Rs. 83,774,107,118 and Rs. 1,752,471,622 respectively had not been furnished for audit. As a result, the evidence had not been received to prove both all the investment properties and land and buildings belonging to the Authority had been identified for the revaluation purposes or documented such assets.
  
- (f) The value of investments amounting to Rs.206,759,841 made by the Authority at various outside 6 entities and a sum of Rs.149,567,591 to be received from 03 state owned entities could not be confirmed due to lack of originals of the certificates of the investments and confirmations of balances respectively.

#### **1.2.10 Non- Compliances with Laws, Rules and Regulations**

-----  
The following instances of non- compliances were observed.

<b>Reference to the Laws, Rules and Regulations</b>	<b>Non- compliance</b>
---	------------------------

-----  
(a) Urban Development Authority Act, No. 41 of 1978

(i) Paragraphs 3(1) and 3(3) The areas in the island to be developed by providing physical and economic facilities should be identified, published and action should be taken thereon. However, no action had been taken thereon during the year under review.

(ii) Paragraph 8(a)(1) of Section 11(a) Development plans for each area so as to enable the development of such areas are required to be prepared. However, action had not been taken accordingly during the year under review.

- (iii) Paragraphs 8(b) i and 5 The development committees to consult the Authority with regard to the matters to be considered in preparation of development plans had not been appointed during the year under review.
- (iv) Paragraph 8(e) The development plans along with the observations of the Authority to be submitted for the approval of the Minister within 60 days from submission of such plans to the relevant Local Authority for their comments had not been submitted accordingly.
- (b) Urban Development Authority  
( Amendment ) Act, No. 04 of  
1982
- (i) Paragraphs 8(a) to (g) and 28(a) The Authority had not approved development plans for any area to be developed during the years 2011 and 2012 and published in the Gazette Notification, Thus indicated that proper attention had not been made thereon.
- (ii) Paragraph 8(j) There were several instances that the action not taken according to the said paragraph against constructions made without development permits and approved building plans. The audit investigation made in this connection had revealed that there were 22 unauthorized constructions remained in areas of Homagama and Seethawaka Pradeshiya Sabaha. However, no action had been taken against such constructions.
- (iii) Paragraph 8(j)(2) The Compliance Certificate from the Authority is required to be obtained, complying with the permit issued for development purposes. However, a test check had revealed that 07 storied housing complex had been constructed at No. 32 of Fernando Mawatha, Wellawatta



- and rented out. However, no action had been taken against that construction.
- (c) Gazette Notification No 1459 of 23 August 2006 and Paragraph 6(vii) of Gazette Notification No 1597/8 of 17 April 2009 of the Democratic Socialist Republic of Sri Lanka The service charges in terms of the Gazette Notification based on the estimated cost of the building should be deposited at the Authority. However, service charges for the 07 storied housing complexes constructed at No. 32 of Fernando Mawatha, Wellawatte had not been obtained. The charges of Rs 50 per day on residing and using the premises without a compliance certificate had not been recovered thereon.
- (d) Gazette Notification No 1597/8 of 17 April 2009 of the Democratic Socialist Republic of Sri Lanka, Planning Circular No.8 of 30 September 1987, Planning Circular No.15 of 18 November 1993 and Planning Circular No.14 of 16 March 1993 The bank accounts are required to be opened and maintained by the local authorities as per relevant provisions for the purposes of the Urban Development Authority. However, 15 local authorities under the purview of Gampaha District office had not opened the bank accounts, so as to collect the service charges of the Authority.
- (e) Financial Regulation of the Democratic Socialist Republic of Sri Lanka F.R. 135 The delegation of financial authority for the staff of the Authority had not been updated since 1999.
- (f) Chapter XLVIII of Volume 11 of the Establishment Code of the Democratic Socialist Republic of Sri Lanka
- (i) Section 13(1) When any suspicion on malpractices of an officer arises, preliminary investigations are required to be commenced in terms of the said Section in order to disclose the details thereon. The test check revealed that such investigation had not been commenced in 13 instances.

- (ii) Section 22.1.1 Further, it was observed that such investigations had commenced with significant delays in 13 other instances. It was observed in an audit test check that letters of demand had not been furnished to accused officers in 02 instances and complete the disciplinary orders by the authorized person within a year.
- (g) Public Enterprises Circular No PED/12 of 02 June 2003
- (i) Section 4.2.6 The quarterly progress reports had not been sent to the Public Enterprises Department within 30 days from the end of the quarter.
- (ii) Section 9.4 The Authority had released 14 officers to various institutions in the public sector several years ago. However, action had not been taken to reimburse a sum of Rs. 548,580 from such institutions. Out of that an officer had been released since 1998.
- (h) Decision of the Board of Director arrived at its meeting held on 14 February 2012 It was decided to write off the debit balance of Rs. 8,287,587 of receivables and bring back the credit balance of Rs. 9,455,627 of payable to the income which included in the Balance Sheet of the Authority.
- Even though the receivables had been written off the credit balances of Rs. 400,000 and Rs. 8,151,869 had not been brought to the income. Further, the approval of the General Treasury had not been obtained for this decision of the Board of Directors

### **1.3 Transactions not confirmed by adequate Authority**

-----

The following observations are made.

- (a) In terms of the Section 10(1) of the Extraordinary Gazette Notification No 392/9 of 10 March 1986 of the Democratic Socialist Republic of Sri Lanka, the Authority issues Initial Planning Settlement Certificates for various development purposes. However, the instances of implementation of conditions and limitations stipulated by Gazette Notification in improper manner had been revealed in audit. The details thereon are as follows.
- (i) The Authority had granted the approval for the development plan for the proposal for construction of 11 storied building in Gampaha area without required recommendations from various regulatory bodies such as Agrarian Services Department, Sri Lanka Land Reclamation and Development Corporation, Central Environment Authority, Ministry of Health, Urban Council and Road Development Authority etc.,
- (ii) A Land Auctioneer in private sector had demarcated a land in Gampaha area without considering it as a one unit and removed a portion of coconut cultivation, contrary to the conditions stipulated in the certificate issued for the development purposes by the Tea, Rubber and Coconut Estates Fragmentation Control Board. However, the Authority had issued an Initial Planning Settlement Certificate without considering the breach of such condition.
- (iii) Even though a land with a coconut cultivation of 04 acres in extent located at Kadirana area in Gampaha had been demarcated into 37 plots before receiving the recommendation of Coconut Cultivation Board, the Initial Planning Settlement Certificate had been issued by the Authority.

- (iv) An Initial Planning Settlement Certificate had been issued to construct a factory for production of wood preservatives in a land located at Primary Residential Area of the Proposed Development Plan for Kelaniya Pradeshiya Sabha, contrary to the intended purposes which it approved.
  - (v) A field inspection is required to be carried out before issuing Initial Planning Settlement Certificates. However, such certificates had been issued on 07 occasions by the Regional Office at Gampaha.
  - (vi) The approval from the Tea, Rubber and Coconut Estates Fragmentation Control Board had been obtained to demarcate 4 portions and transfer the ownership of a land of 31 acres, 02 roods and 06 perches at Heiyantuduwa area. However, action had been taken to demarcate the land into further portions improperly. The Authority had taken action to issue the settlement certificates to develop a piece of the respective land for residential purposes. Further, the Authority had not carried out field inspections before issuing the Settlement Certificates.
  - (vii) The Initial Planning Settlement Certificates had been issued by the Authority based on unrealistic estimates presented by the applicants without making detailed examinations. Therefore, it was revealed that lower rates for service charges had been applied thereon. The charges made on construction of a factory for the production of plastic materials and the construction of a housing scheme consisted of 144 units in 11 levels in the flyover road in Gampaha were the indicative examples thereon.
- (b) Even though the basic payments on leasing out of lands belonging to the Authority to be recovered fully from the lessees, it was allowed on several occasions to pay it in annual installments. Therefore, it was allowed to pay the basic payment in annual installments for over 28 years with regard to the

leasing out of a land with an extent of 2 roots and 31 perches owned by the Authority in Narahenpita area for the construction of a private hospital.

- (c) The charges amounting to Rs.207,331,767 recovered on issuing Development Permits which required to be remitted to the Urban Settlement Development Authority in terms of the paragraph 16(1) e of Section II of Urban Settlement Development Authority Act, No. 36 of 2008 had been utilized for the purposes of the Authority without being remitted to the Urban Settlement Development Authority.

## **2. Financial Review**

-----

### **2.1 Financial Results**

-----

According to the financial statements, the operating results before taxes of the Group and the Authority for the year under review were the profits amounted to Rs. 686,176,790 and Rs.444,910,230 respectively corresponding results of the previous year amounted to Rs.325,426,585 and Rs.242,576,469 respectively. Therefore, the increases of the financial results were Rs, 360,750,205 represented by 111 per cent and Rs. 202,333,761 represented by 83 per cent respectively were influenced significantly by the increases of income from call deposits and prepayments.

### **2.2 Analytical Financial Review**

-----

According to the financial statements presented, the figures related to several Commercial Operations of the Authority for the year under review and previous year are compared and shown below.

Activity	<u>Profits of the Activity</u>	
	( Rs '000)	
	<u>2012</u>	<u>2011</u>
Rental Income	743,939	498,929
Sale of Lands and Properties	5,907	17,620
Water's Edge( Gross profit)	403,281	317,919
Lanka Rest House ( Gross Profit)	17,960	12,886

The rent income had been increased by 49 per cent whilst the income on selling of lands and buildings had been declined by 66 per cent compared to the previous year. According to the above data, the gross profits of the subsidiaries had been increased by 27 per cent and 39 per cent respectively.

### **3. Operating Review**

-----

#### **3.1 Performance**

The following observations are made.

- (a) An audit test had revealed that out of 16 Local Authorities in Gampaha District, development plans for 14 Local Authorities had not been prepared and published in the Gazette Notifications. Only one female officer had been deployed by the Authority for the preparation of development plans and thus indicated that the adequate priority had not been given by the Authority for this purpose.
- (b) The activities included in the Action Plan for the year under review such as construction of buildings for office complexes at Trincomalee, Ampara, Anuradhapura and Pollonnuruwa and construction of a building for a market at Angulakolapelessa had not been commenced even at the end of the year under review. The allocation amounting to Rs. 101.5 million made for this purpose in the Annual Budget had not been utilized.

- (c) An advance amounting to Rs. 26,000,000 representing 50 per cent of the value of assessment to transfer the right of the Authority of a land located at Pitipana in Homagama to construct buildings for a training centre of the Foreign Employment Bureau had been made in 2010. However a correct plan under new lay out plan had not been prepared, and as a result, the balance amounting to Rs. 26,000,000 could not be recovered. Further, the construction of the building for a training centre was not yet started.

### **3.2 Management Inefficiencies**

-----

The following observations are made.

- (a) According to the agreement entered in to with a Government owned Board to rent out a building located in Colombo 07 for 99 years, the rent should be revised in every 05 year based on the assessment made by the Chief Valuer. However, the rent had not been amended and upgraded accordingly. Further, a sum of Rs. 5,250,000 had not been recovered as the rent of the land for period from 21 July 1994 to 20 July 2009.
- (b) A building had been obtained to use as the District Office at Gampaha on rent basis. It was observed that the rent agreement had not been signed for this purpose and building rent had not been paid in an updated manner. Further, several instances of disconnection of power supply, as a result of electricity bills not settled in a timely manner, and payments of building rents not paid in an updated manner, had been observed.
- (c) The lands owned by the Authority had been rented out to the outside parties and instances of rentals not recovered and rights not vested in timely manner, due to control weaknesses, had been observed. The following instances had arisen due to such control weaknesses.
  - (i) According to the policy applied by the Authority, it is required to be mentioned in the rent agreement that the annual Ground Rent should be revised in every 05 year period. However, that fact had not been

included on several occasions. The examples thereon are the land located at Kamburupitya which rented out for Gamudawa exhibition activities and the land located at Hikkaduwa rented out to the Ceylon Electricity Board.

- (ii) There were several instances of amendments of rents not done once in every 5 years as mentioned above even though it was mentioned in the Agreements.
- (iii) It was observed in several instances that the development activities in the lands rented out had not been commenced as agreed. The legal actions required to be taken in such instances had not been included in the rent agreements. Further, follow-up action thereon had not been made by the Authority. Therefore, it was observed that the crown lands, which are treated as limited resources, had not been used for development purposes in an optimum manner.
- (iv) It was observed that the rent amounting to Rs. 5,250,000 (excluding VAT) to be recovered on renting out of a land with the extent of 19.6 perches which located at Thunmulla Junction on Bauddaloka Mawatha, Colombo -07 for 99 years, had not been recovered for over several years.
- (v) A land located at Ratmalana area of 220 perches in extent had been rented out in 1992 to an apparel company in private sector. However, rent and the penalty charges thereon amounting to Rs. 33,037,595 as at 31 October 2012 had remained outstanding.
- (vi) A property located at No. 234 on Galle Road, Colombo 03 had been rented out for 50 years. However, a proper written agreement in this regard had not been entered into. Further, the Authority had failed to recover a sum of Rs. 5,563,750 to be recovered on usage of land by the respective institute from 20 February 2002 to 05 October 2009. The permission of the Minister in charge had been received on 02



occasions to vest the right of the land. However, necessary action had not been taken by the Authority even at the end of the year under review.

- (d) The audit examination carried out on unauthorized constructions and land filling in the areas of local authorities of Gampaha and Colombo Districts had revealed that such unauthorized constructions and land fillings had been done on 43 occasions. However, any action in this regard had not been taken by the Authority.
- (e) Action had not been taken to recover a sum of Rs 4 million from Balangoda Urban Council on exchanging of a land.
- (f) According to the provisions made in the Employees Provident Fund (Amendment) Act, the cost of living allowance and other allied allowances etc should be considered in addition to the basic remuneration in calculating the contribution for the Employees Provident Fund. However, the Authority had not calculated the contribution accordingly, and as a result, underpayment of Rs. 19,823,420 had been remitted to Employees Provident Fund. Further, the Authority had not taken action to remit a sum of Rs. 13,215,613 to the Fund eventhough it was recovered from the employees. Similarly, a sum of Rs. 3,964,684 to be remitted for the year under review, as a result of non-application of various allowances for the calculation of contributions to the Employees Trust Fund had also remained outstanding.

### **3.3 Operational Inefficiencies**

-----

The administration building complex of Sethsiripaya Stage II had been opened on 18 May 2012 and monthly rental per square meters of the building had been determined as Rs. 260. However, action had not been taken to provide office premises for the external parties promptly. Therefore, 254,951 square meters of the building had remained idle for over 06 months up to the end of the year under review, and as a result, loss of revenue amounting to Rs. 464 million had been observed.

According to the explanation made by the Chairman, renting out activities of the premises was delayed due to several reasons such as time taken to make internal arrangements of the building, and delays in receiving allocation from the General Treasury for the completion of the construction works.

### **3.4 Matters in Contentious Nature**

-----

According to the powers vested in the relevant Minister under the provision made in the Urban Development Act, 04 members for the Board of Management could be appointed by the Minister in Charge. However, 05 members for the Board of Management had been appointed exceeding the above provision.

### **3.5 Apparent Irregularities**

-----

The Authority had been advised by the relevant authorities to identify the Dengue breeding grounds at the Sethsiripaya premises and dispose useless materials properly within 07days. However, useless materials were removed on several occasions through a private firm which was selected without adopting the tender procedure in a transparent manner. On such occasions, the firm had disposed valuable metal materials including 03 motor cycles.

### **3.6 Idle and Underutilized Assets**

-----

The following observations are made.

- (a) A land with the extent of 24 acres had been acquired in 1998 for development purposes of the Avissawella town and out of that, 15 acres had remained without being used for any development purpose. Further, a scheme for the development of the land had not been prepared. In addition, it was observed that the compensation amounting to Rs. 20, 125,500 and interest of 7 per cent per annum thereon since 07 October 1998 had not been paid.

- (b) A land with an extent of 27.17 acres had been acquired by the Authority in 1988 for Balangoda Urban Development Project and portion of land with the extent of 21.17 acres had not been used for development purposes even at the end of the year under review.

### **3.7 Uneconomic Transactions**

-----

The following observations are made.

- (a) A sum of Rs. 92,000,000 had been invested by the Authority to purchase shares of a Private Company and no return on investment had been received at the end of the year under review, since 2005. According to the decision taken by the Cabinet of Ministers subsequently, the Company should be transformed as a Public Company and recover the value of investment made by the Authority. However, the Authority had not taken action accordingly.
- (b) A Subsidiary Company had issued its 18 per cent preference shares valued at Rs.28,950,000 to the Authority in 2005 to compensate value of land transferred by the Authority to said Company. However, no return on investment had been received since the inception of the investment.
- (c) No return for the year under review had been received on investment made at a cost of Rs. 500,000 at Housing Development Finance Corporation and other investments made at a cost of Rs.36,309,841 at Colombo Land and Development Company.
- (d) An investment of Rs. 299,999,930 had been made at Peliyagoda Warehouse which is a subsidiary of the Authority and a provision had been made to write off the cost of investment due to continuous losses incurred by the subsidiary. An interest income amounting to Rs. 1,251,634 on loan of Rs. 250,326,914 granted to the subsidiary was being received monthly (at a rate of 6 per cent) at the beginning of the year under review. In the meantime, out of the above mentioned loan, a sum of Rs. 200 million had been converted as an investment in April of the year under review and 100 per cent provision had been made

thereon. As a result of reduction of the loan, by Rs. 200 million monthly interest income of Rs.1,000,000 received by the Authority was stopped and total loss of income of interest to the Authority for the year under review amounted to Rs.8,000,000. However, it was planned to acquire a land owned by the company by the Sri Lanka Ports Authority and pay the compensation and as a result, the Board of Management of Authority had decided to liquidate the company. According to the Chairman, the balance of loan amounting to Rs. 200 million had been converted as the capital accordingly.

- (e) Action had not been taken to recover a sum of Rs. 15,034,046 granted during the year under review to the Guest House Company as a capital and a payment to settle recurrent expenses. Any return on investment had not been received.
- (f) According to the practice followed by the Authority, the bids are called with value Added Taxes on application of procurement process for various purposes. However, such policy had not been applied for calling bids for disposal of vehicles, and as a result, Value Added Taxes amounting to Rs. 1,692,650 had to be paid out of the funds of the Authority.
- (g) According to the Paragraph 6 (II) of the Schedule V of the Gazette Notification No 1597/8 of the Democratic Socialist Republic of Sri Lanka of 17 April 2009, fees of Rs 500 and Rs. 2,000 per square meters can be charged if it is possible to regularize the improper constructions completed for residential and commercial purposes. However, action had not been taken to recover total fees amounting to Rs. 26,878,000 made on 02 occasions.

### **3.8 Identified Losses**

-----  
A sum of Rs. 9,289,467 spent by the Authority for suppling of water and electricity for the occupants living in the temporary houses constructed for the purpose of rehabilitation works carried out under the Relocation of Underserved Settlement Project had been written off against the income of the Authority.

### **3.9 Delayed Projects**

-----

It was planned to construct 20,500 houses at the end of 2013 under the first phase of the Project implemented to provide 65,000 houses with facilities for the settlements with lower facilities at the Colombo City and suburbs. Further, it was planned under the first phase to free 150 acres of lands by removing settlements with lower facilities and earns an income of Rs. 25 billion by leasing out of such lands under long term basis to the investors. For the purpose of generating funds to implement the first phase, debentures valued at Rs. 5 billion to be redeemed within 5 year period had been scheduled to be issued in September 2010. However, funds expected to be raised under the second phase amounting to 5 billion had also been collected at the first phase itself due to high demand prevailed in 2010.

However, the houses expected to be constructed under the first phase had not been completed after lapse of 04 years from raising of funds. Therefore, the Authority had failed to collect expected revenue of Rs 25 billion. Further, Authority had bound to collect funds to redeem the debentures valued at Rs 10 billion in 2015.

### **3.10 Commencement of Projects in the Lands which were not Duly Acquired**

-----

The construction works at the Bus Stand at Horana and the trade stalls therein and the houses affiliated to the office complex at Hambantota had been carried out by the Authority without vesting of legal ownership of the land. Revenue on certain constructions had also been generated.

### **3.11 Staff Administration**

-----

The following observations are made.

- (a) The scheme of recruitment and promotion for the Authority had not been approved according to the Circular No.30 of DMS/ Salary/General Administration Services of 22 September 2006 of the Department of Management Services. The promotion for 31 posts of Deputy Directors included in the Class (I) of the Management Service category of the Authority had been granted contrary to the paragraph 5 of the Annex II of the said Circular.

- (b) As a result of actions not taken by the Authority to confirm the genuineness of the examination certificates etc immediately after recruiting staff for the posts , several instances were observed in employing persons in the jobs of the Authority for over 10 years by producing bogus certificates. As an example, delays occurred up to 08 June 2012 to get confirmation from the Department of Examination to prove the educational certificates produced by a Receptionist recruited in 1997, as fraudulent documents.

### **3.12 Utilization of Motor Vehicles**

-----  
The following observations are made.

- (a) Rents aggregating Rs. 5,783,159 had been spent by the Authority during the year under review for 22 motor vehicles obtained by the Authority on monthly lease basis. According to the provisions made in the Public Finance Circular No. 353/(5) of 31 August 2004, payable monthly rental was limited to Rs 40,000. However, instances were observed that payment of monthly rentals up to Rs. 57,142 for 04 motor vehicles exceeding the above mentioned limit. Further, the fuel had been provided for 10 motor vehicles and drivers of the Authority had been employed by the Authority for 06 motor vehicles.
- (b) At the time of taking actions on accidents of the motor vehicles owned by the Authority;
- (i) Instances were observed that actions not taken by the Authority in terms of Financial Regulation No 103(1)
- (ii) Actions had not been initiated even at the end of the year under review to repair 05 motor vehicles which met with accidents during the first 06 months of the year. Further, it was observed that the long delays in obtaining police reports related to the accidents and instances of meeting with further accidents in the meantime of delaying period.

- (iii) Instances of receiving lesser amount of insurance claims due to abnormal delays in repairing of the motor vehicles and instances of non- recovering of repair costs which were not covered by the insurance claims were observed in audit.

#### **4. Issues on Accountability and Good Governance**

-----

##### **4.1 Presentation of Financial Statements**

-----

The following observations are made.

- (a) Eventhough the draft financial statements along with the Annual Report for the year under review to be submitted for audit within 60 days from the end of the year in terms of Section 6.5.1. of the Public Enterprises Circular No PED /12 of 02 June 2003, the draft financial statement which prepared in compliance with new accounting standards had been submitted only on 03 July 2014 with delay of 16 months.
- (b) The Management Responsibility Statement had not been included in the financial statements as required by the Public Enterprises Circular No. PED /45 of 02 October 2007.

##### **4.2 Weaknesses in Financial Controls**

-----

It was observed that the controls on financial accounting system of the Authority was weak due to several reasons such as dates not stated in 61 journal entries made during the year under review, signatures not made to verify the preparation and checking of journal entries, details of credits/ debits not included, narrations not included, values not indicated and included in the computer system etc.

### **4.3 Corporate Plan**

-----

The following observations are made.

- (a) The Corporate Plan prepared for the period of 2008-2012 had not been annually updated.
- (b) The activities of Project proposed to construct 65,000 houses under Colombo City Development Plan had not been included in the Corporate Plan.

### **4.4 Action Plan**

-----

The following observations are made.

- (a) The Annual Action Plan prepared was not in line with the targets indicated in the Budget Estimate for the year under review.
- (b) Eventhough progress reports are prepared quarterly by the Authority, such reports are not compared with the data presented in the Action Plan , thus observed that it was not utilized as an effective instrument of control.
- (c) Edirisinhe Watta Housing Project implemented during the year under review at an estimated cost of Rs. 1,375 million, had not been included in the Annual Action Plan for the year.

### **4.5 Internal Audit**

-----

Eventhough the Internal Audit Section had observed that certain existing control systems remained weak , it was observed that there was not an approach within the Entity to empower such control systems. Further, the staff of the Internal Audit Section had not been motivated to enable to obtain a quality service. Further, action had not been taken to empower the staff of the Internal Audit Section in line with widening of the functions of the Authority. Several instances were observed that the management had not paid an adequate attention on deficiencies pointed out by the staff of the Internal Audit Section.



#### **4.6 Budgetary Controls**

-----

Significant variations of actual income with the estimated income from the sources of rent, selling of fixed assets, service charges, interest, dividends and sundry income etc, were observed and thus indicated that the budget had not been utilized as an effective instrument of control.

#### **4.7 Tabling of Annual Reports**

-----

Eventhough the Authority should table its Annual Reports in Parliament within 150 days after the close of the year of account in terms of Section 6.5.3 of the Public Enterprises Circulars No. PED/12 of 02 June 2003, the Annual Reports after the year 2010 had not been tabled.

#### **4.8 Un resolved Audit paragraphs**

-----

An adequate attention had not been paid by the Authority on the following observations made in the audit reports published in previous years, and out of that certain observation had drawn the attention of the Committee of Public Enterprises.

- (a) Idling of alternative trade centre constructed for road hawkers at a cost of Rs 16 million at Saunders Place in Pettah in 2002.
- (b) Lack of the approval of the General Treasury on payment of 1/3 allowance for the officers attached to the offices of Chairman, Director General and Additional Director General.
- (c) Recovery of outstanding usage fees receivable amounting to Rs. 92 million related to New Town Plan of Dambulla, not done.
- (d) Non - payment of contribution payable to the Employees' Provident Fund and Employees' Trust Fund.

#### **4.9 Achievement of Environmental and Social Responsibility**

-----

It was observed that an adequate attention had not been paid by the Authority on achievement of environmental and social responsibility due to following reasons.

- (a) Action had not been taken to make a balanced development of the country to create an easy living environment for the community. However, the Chairman had stated that the Project covering Colombo and other districts of the island had been initiated during the year under review.
- (b) Optimum contribution of the Authority had not been made to block the unauthorized constructions as the empowered entity for that purpose. The Chairman had stated that the responsibility on preventing of unauthorized constructions is rested with the Local Authorities as the responsibility thereon had been decentralized.
- (c) The Authority had faced with questioning of Provincial Health Authorities on the spread of Dengue disaster due to poor maintenance with proper cleaning of office premises of the Authority.

#### **5. Systems and Controls**

-----

The Chairman of the Authority had been informed from time to time on deficiencies on systems and controls during the course of audit. Special attention is needed on following areas of control.

- (a) Budgetary Controls
- (b) Accounting
- (c) Disposal of Motor Vehicles
- (d) Security Bonds
- (e) Debtors' Control
- (f) Settlement of Advances
- (g) Maintaining and updating of Registers of Fixed Assets
- (h) Preparation of Development Plans
- (i) Issuing of Settlement Certificates for Development Purposes
- (j) Observations on Uncompleted Assignments