

Urban Development Authority – 2016

The audit of consolidated financial statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 10 of the Urban Development Authority Act, No.41 of 1978. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraphs 2.2 and 2.3 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial statements of comprehensive income, statement of financial performance and statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion - Group

Because of the significant of the matters described in paragraphs 2.2 and 2.3 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Disclaimer of Opinion - Authority

Because of the significant of the matters described in paragraph 2.3 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements – Group

The following observations are made.

- (a) The consolidated financial statements of the Authority had been prepared based on unaudited financial statements the subsidiary companies, Urban Investments and Development Company, Waters Edge Ltd, Lanka Rest House (Private) Company and Peliyagoda Warehouse Complex Ltd for the year 2016. Hundred per cent ownership of the above 04 companies had been vested in the Authority.
- (b) The assets valued at Rs.642.5 million had been vested in the Authority on a Court order, and as those assets have been used by the Waters Edge Company Ltd, the Authority has requested from the subsidiary Company to issue shares of the Company for the value of the assets. However, the shares had not been issued up to 31 December 2016. Although it was disclosed in the statements of financial position of the Waters Edge Ltd that there is a pending allotment of shares, the above company and the Urban Development Authority had not entered into a formal agreement. As well, a sum of Rs.200 million had been invested in the shares of the Company. Thus, a sum of Rs.842.5 million had been shown in the financial statements of the Urban Development Authority as investment of the Waters Edge Company.

2.3 Comments on Financial Statements – Authority

2.3.1 Limit the Scope of Audit Due to the Deficiencies in the Computerized Accounting System

Even though the deficiencies in the computerized accounting system of the Authority had been pointed out by audit since many years, the corrective actions had not been taken to rectify such deficiencies up to end of the year under review. Not developing the computerized accounting system based on double entry accounting principle, non application of accurate and systematic coding system for accounting, set off the balances in assets, liabilities, income and expenditure accounts against each other by avoiding obtain particulars of account balances, to identify the accounting data separately released to the audited financial year, unavailability of particulars to check the accuracy of balances shown in the financial statements and unable to obtain even a Trial Balance for the year, were the main deficiencies.

It was further observed in audit that the accuracy and acceptability of accounting data generated from the computerized accounting system had not been protected by introducing a proper security procedure and implementing a system thereon. Hence, due to the above deficiencies, the system had failed to provide the audit trails and as a result the scope of audit had been limited.

2.3.2 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) **Sri Lanka Financial Reporting Standard 07**

- (i) Even though an entity should disclose information that enable users of its financial statements to evaluate the nature of influence and importance arising from financial instruments, adequate information relating to investments in Repurchasing Securities amounting to Rs.4,488 million and Fixed Deposits amounting to Rs.1,559 million had not been disclosed in the financial statements.
- (ii) Even though the loans amounting to Rs.37.62 million had been provided to implement Urban Development Sector Programmes, adequate disclosure thereon had not been made in the financial statements.
- (iii) The imparilment loss of Rs.53 million that had incurred on the fair value adjustments made to the pre paid staff cost in accordance with the Sri Lanka Financial Reporting Standard – 07 had not been disclosed in the financial statements.

(b) **Sri Lanka Accounting Standard 01**

- (i) Even though the liabilities that should be settled within a year subsequent to the date of financial statements were presented the gratuity allowances amounting to Rs.3.2 million that should be settled within a year had not been shown as current liability in the financial statements.
- (ii) A sum of Rs.1,859 million given by the Ministry of Western Development and MegaPolise in the year 2016 as capital provisions for the use of various projects of the Urban Development Authority, had not been shown in the statement of changes of equity.
- (iii) The nature and maintaining objectives of Reserves should be disclosed in the financial statements. However, the maintaining objectives of the Contingent Fund amounting to Rs.55 million and Capital Reserves amounting to Rs.8.4 million shown in the financial statements of the Authority, had not been disclosed in the financial statements.

(c) **Sri Lanka Accounting Standard 07**

- (i) A sum of Rs.551.8 million which had been given by the General Treasury to the Authority for reimbursement of the debenture interest, had been adjusted to the changes in working capital, in the cash flow statement under the operational activities, instead of being shown under the financing activities.
- (ii) According to the financial statements, a sum of Rs.16,272,210 had been paid as gratuity payment to the employees during the year under review. However, according to the cash flow statement that payment amounted to Rs.17,519,171. Thus, a difference of Rs.1,246,961 was observed.

(d) **Sri Lanka Accounting Standards 17**

Adequate disclosures had not been made with regard to the differed lease rent amounting to Rs.19,940 million shown in the statement of financial position.

(e) **Sri Lanka Accounting Standard 23**

The interest expenditure amounting to Rs.1,705.83 million incurred on the debenture issued from the years 2010 to 2015 for the construction of apartment houses under the Urban Regenerative Project had been capitalized as borrowing costs. However, contrary to the requirements in the Sri Lanka Accounting Standard 23, the above capitalized borrowing cost had been set off against the funds received from the Treasury amounting to Rs.2,759 million, to reimburse the debenture interest of the year under review and as a result the asset had been under valued by the amount of capitalized borrowing cost under the Regenerative Project amounting to Rs.1,705.83 million. As well, the remaining balance of Rs.1,053.17 million had been shown in the financial statements under the other income, as considering the reimbursement profit of the borrowing cost, The reasons for the obtaining of excess funds from the Treasury to reimburse the borrowing cost and identifying the excess fund received from the Treasury as the income had not been explained to audit.

(f) **Sri Lanka Accounting Standard 24**

According to the audited financial statements of the Waters Edge Subsidiary Ltd for the year under review, a sum of Rs.5,438,553 should be received from the Authority. However, this related party transaction had not been disclosed in the financial statements of the Authority.

(g) **Sri Lanka Accounting Standard 28**

Even though the investment in two associate Companies amounting to Rs.128.8 million had been shown in the financial statements, adequate disclosure in respect of recognition of revenue/ not accumulating of income for the investments had not been disclosed in the financial statements.

(h) **Sri Lanka Accounting Standard 37**

- (i) Hundred per cent provision had been made in the year 2012 in respect of diminished value of the investment amounting to Rs.449 million in a subsidiary Company of the Peliyagoda Warehouse Ltd. Although that Company had started to earn the profits since the year 2013, action had not been taken to make re-adjustment to the provision.
- (ii) Due to not taking into consideration of cost of living allowances, when making contribution to the Employees' Provident Fund, a surcharge of Rs.60.5 million had to be paid from the year 2006 to July 2012 and the arbitration thereon was not concluded. Therefore, releasing of surcharge is doubtful. Thus, though a disclosure would be made under the contingent liability, it had not been done so. As well, a sum of Rs.6.5 million which should be paid by the Authority relating to the Employees' Trust Fund had not been accounted.

2.3.3 Accounting Policies

Accounting Policies for the payment of compensations to the acquired lands and identification of income on dispose lands had not been disclosed in the financial statements.

2.3.4 Accounting Deficiencies

The following observations are made.

- (a) The payable to the Department of Valuation amounting to Rs.261 million, with regard to obtaining of Government valuation for the land belong to the Authority had not been identified as a liability and accounted. As a result, the liabilities had been under computed by that amount and due to not making of adjustments to the unpaid expenditure in the previous years to the retained profit, the profits of the previous years had been over estimated.
- (b) According to the statements of financial position, the liability on the gratuity payments as at 31 December 2016 amounted to Rs.245.9 million and according to the Actuarial Valuation Report that amounted to Rs.242.2 million. However, the reasons for the difference had not been disclosed in the financial statements.
- (c) The National Security Levy and Goods and Services Tax amounting to Rs.36 million, which are not currently being charged, had been shown as state tax debtors in the financial statements, instead of being written-off from the books.
- (d) The Economic Service charge amounting to Rs.1,355,452 payable for final quarter of the year under review had not been accounted.
- (e) The disclosure in respect of 04 companies incorporated in the year 2014 and investment made in 4,000 shares as the initial capital, by the Authority, had not been made in the financial statements.
- (f) Two plots of land belonging to the Authority situated in Kolpity area, had been acquired by the Road Development Authority in the years 2010 and 2011 for the road construction under the Marine Drive Project. However, Action had not been taken to make the adjustments to the value of the Property, plant and Equipment, after being identified the accurate cost of the lands. Hence, the land value shown in the financial statements had been overstated.
- (g) On the self assessment basis, a sum of Rs.10,029,259 had been paid to the Department of Inland Revenue, after being identified the tax liability for the final quarter of the year under review. Interest on lease rents amounting to Rs.232 million had been removed, when computing the adjusted taxable profit considering it as other source of income. Whilst, the profit on land sales during the year under review amounting to Rs.104,041,994 and the profit on sale of fixed assets amounting to Rs.4,702,160 had not been deducted from the adjusted taxable profit as other source of income. Hence, when computing the tax on business activities on self assessment basis, the adjusted loss had been under computed by Rs.123,441,054.
- (h) The cost of 5 completed projects amounting to Rs.1,248.23 million had been shown as work-in-progress in the financial statements, instead of being capitalized.

2.3.5 Unexplained Differences

The following observations are made.

- (a) According to the financial statements of the Authority, the receivable amount from subsidiary Company of the Waters Edge Ltd amounted to Rs.4,000,000 whereas according to the audited financial statements of the Company, the payable amount to the Company by the Authority amounted to Rs.5,438,553. Thus, a difference of Rs.9,438,553 were observed between two balances.
- (b) A difference of Rs.93.8 million was observed between the 06 items shown in the financial statements and the detailed schedules.

2.3.6 Lack of evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to unavailability of evidence shown against each of the transaction.

Accounting Subject	Value (Rs.million)	Evidence not made available
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(a) Investment Property	71,432	Detailed schedules, land Registers
(b) Local Government loans	647	} Confirmation of balances and detailed schedules
(c) Loans payable for lands, payable deposits and advances	21,156	
(d) (i) Revenue Accounts - 04	2,506	} Detailed schedules
(ii) Expenditure Accounts - 02	463	
(e) Land acquisition (Urban Regenerative Project about 58 acres)	-	} Supporting documents
(f) Arrears in staff loans	200	Detailed schedules, age analysis, details relating to the actions taken for recovering.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The receivables from 4 state institutes totalling to Rs.123 million had been shown in the financial statements of the Authority however, according to the information received from 2 institutions no payables to the Authority and as per the financial statements of the other 2 institutions, only a sum of Rs.2.5 billion, to be payable to the Authority. As well, although a sum of Rs.40 million was shown in the financial statements as receivable from another public institution, the payable amount by the Authority to that institute amounted to Rs.52 million, as per the balance confirmations. Further, according to the financial statements of the Authority, the payable amount to two State Corporations amounted to Rs.69 million. Nevertheless, as per the financial statements of those Corporations, the receivable amount from the Authority amounted to Rs.393 million. Thus, the liabilities shown in the financial statements of the Authority can not

be accepted. Accordingly, above receivables and payables had been become contentions balances and could not be accepted in audit.

- (b) The advances amounting to Rs.2,900 million which had been given to the contractors by the Authority for various Projects were remained as unsettled as at 31 December of the year under review.
- (c) The monthly rentals in arrears, utility charges, lease instalments totalling Rs.315.5 million were as at beginning of the year under review and out of that a sum of Rs.91.9 million or 29 per cent had only been recovered during the year under review.
- (d) Monthly rent debtors' balance amounting to Rs.55 million and lease debtors' balance amounting to Rs.19 million were unrecovered for over 5 years up to end of the year under review. As well, a sum of Rs.66 million to be recovered from the customers whose rental agreements voided due to rent in arrears up to 31 October 2016.
- (e) The Lump sum payments to be receivable from the lease out lands to 3 institutions on long term lease basis totalling Rs.119.14 million had not been received since long period of time. Out of that, the receivable amount from one institute had been older than 20 years.
- (f) Out of Rs.4,163 million received from the customers for various capital works, a sum of Rs.181 million had not been settled for over 5 years. Nevertheless, action had not been taken to settle that amount, after being identified the customers or to written back to the income.

2.5 Non- Compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non – compliance with Laws, Rules Regulations and Management decisions were observed.

Reference to Laws, Rules and Regulations etc.	Non – compliance
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(a) Section 5.2.6 of the Establishment Code of the Socialist Republic of Sri Lanka and Section 4.4 of Recruitment Procedure of the Urban Development Authority	According to Recruitment procedure, the Interview Board that appoint to give the promotion to officers should be comprised of 5 members. However, for some Interview Boards had comprised of 4 and 3 members.
(b) Financial Regulation 380 of the Democratic Socialist Republic of Sri Lanka	To open new current accounts, the Treasury approval should be obtained by the state Corporations and Statutory Authorities. However, to open an account in the National Development Bank, said approval had not been obtained by the Authority.

- (c) Companies Act. No. 07 of 2007
- (i) Section 383
- According to the winding-up procedure, a person who has within two years immediately preceding the commencement of the winding – up, been a director of the Company or of a related Company should not be appointed or act as a Liquidator of a Company. However, a Director of a Subsidiary Company had been appointed as the Liquidator of the winding up Company.
- (ii) Section 330
- In the event the winding-up continuing for more than one year, the Liquidator should summon a general meeting of the Company at end of the first year from the date commencement of the succeeding year or at first convenient date within the 3 months from the end of the year or such longer period as the Register will allow. However, a general meeting of the Company had not been held accordingly.
- (d) Employees’ Provident Fund Act, No.15 of 1958 and Employees’ Trust Fund Act, No.45 of 1980
- In the computation of contribution to Employees’ Provident Fund and Employees’ Trust Fund, the cost of living allowance should be taken into consideration and it had not been so done. As such, the arrears payable in respect of those funds for the period from the years 2006 to 2012 amounted to Rs.116,085,396.
- (e) Common Amenities (amendment) Act, No.39 of 2003
- Even though a certificate should be obtained from the Condominium Management Authority for the housing Projects, such a certificate had not been obtained for the housing schemes belonging to Regenerative Project.
- (f) **Public Administration Circulars and Management Services Circulars**

- (i) Management Services Circular No.39 dated 26 May 2009
- Without having the recommendation of the salaries and cadre commission and the approval of the Department of Management Services, a monthly professional allowance of Rs.15,000 had been paid to Engineers, Architects, Lawyers, Accountants, Town Planners and Quantity Surveyors etc, of the Urban Development Authority with effect from 01 July 2014 and a sum of Rs.27,930,000 had been paid for that respect to 171 officers and a sum of Rs.25,605,000 had also been paid in the preceding year.

- (ii) Ministry of Public Administration and Management Circular No.05/2016 dated 09 March 2016
- Obtaining the approval of the Board of Directors of the Authority, transport allowance of Rs.80,000 and Rs.70,000 had been paid respectively per month to the Chairman and the Director General of the Authority, instead of being paid the allowable transport allowance of Rs.50,000 per month, contrary to the instruction given in the circular and without obtaining concurrence of the General Treasury. Accordingly a total sum of Rs.960,000 had been paid for the year under review.
 - A sum of Rs.1,850,000 had been paid to 04 officers as vehicle allowances, up to end of the year under review whose posts were not included in the approved cadre and had been promoted without following the formal promotion procedure.
- (iii) Public Administration Circular No.14/2008 dated 26 June 2008 and Public Enterprises Circular No.PED/1/2015 dated 25 May 2015
- Drivers had been provided for 23 officers who had drawn allowances by using private motor vehicles, and a sum of Rs.30,186,085 had been incurred by the authority as Drivers salaries and overtime allowances during the year under review.
- (iv) Public Administration Circular No.23/94 dated 17 June 1994
- Maximum age limit for the recruitment to permanent posts of the Public Corporations and Statutory Boards is 45 years. Nevertheless, a female officer over 56 years old who had voluntarily resigned from the service of the Authority obtaining the retirement benefits, had reappointed to the post of the Director (Project Management). Further, she had been placed 15th salary step instead of being placed the initial salary scale of the post, and before lapse of 6 months, she had been promoted to post of Deputy Director General (Consultant).
- (v) Management Services Circular No.30 dated 22 September 2006 and Public Administration Circular No.06/2006 dated 25 April 2006
- A Performance based promotion scheme had not been introduced for the Authority and after placing posts in a new salary scale, approval of the National Salaries and Cadre Commission had not been taken to implement it. Nevertheless, the Authority had taken actions to grant promotions subject to a prior approval utilizing a proposed cadre composition.

- According to those Circulars, although it had instructed to inform the officers about marks allocation procedure when giving the promotions, it had not so done.

(g) **Public Finance Circulars and Department of Public Enterprises Circulars**

 (i) Public Finance Circular No. PF/PE 12 dated 26 January 2001

According to the circular instructions, the Public Corporations and Boards should keep their bank accounts only in the state banks. However, contrary to the Circular instructions, a bank account had been opened in a private bank, National Development Bank, and the funds receiving from sales of houses had been deposited in that bank account.

(ii) Public Finance Circular No.2016/01 dated 08 January 2016

In recruiting of consultant, the approval of the Cabinet of Ministers should be obtained through the Minister of the Line Ministry. Nevertheless, without obtaining that approval, 12 consultants had been recruited and a sum of Rs.9,496,252 had been paid for them during the year under review and some of them released to the service of the Ministry. Further, the reports relating to duties of the consultants had not been maintained and service period of some of the consultants had been extended year by year.

(iii) **Public Enterprises Circular No.PED/12 dated 02 June 2003**

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- Section 4.2.6

The quarterly progress reports of the Authority had not been sent to the Department of Public Enterprises within 30 days of the closure of the relevant quarter.

- Section 8.2.3

The approval of the Cabinet of Ministers had not been obtained for the establishment of the Urban Investment and Real state (Private) Company, the Urban Investment and Hotel Development Company, Orchard Urban Housing Development Company and the Water Edge Hotel Development Company on 21 November 2014.

- Section 9.2(d)

The approval of the Department of Public Enterprises had not been obtained for the composition of the cadre of the Authority.

- Section 9.14

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| <p>(iv) Circular of the Secretary to the Ministry of Finance and Planning No.116 dated 24 January 1997 and Section 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.</p> | <p>The Authority should prepare a procedure relating to the Human Resources Management and get it approval and otherwise, provisions in the Establishment Code relating to Human Resource Management should be adopted. Nevertheless, action had not been taken accordingly.</p> |
| <p>(v) Public Enterprises Circular No.01/2003 dated 3 January 2004</p> | <p>Even though the officers of the Public Enterprises should not be released to the Ministry or other Public Institutions, 29 employees of the Authority had been released to other Public Institution contrary to that directions. Out of those employees, the payments made to 16 employees amounting to Rs.11,511,730 in the year 2016 action had not been taken to reimbursed.</p> |
| <p>(h) Schedule V and Paragraph 7 Extraordinary Gazette No.1597/8 dated 17 April 2009 of Democratic Socialist Republic of Sri Lanka</p> | <p>Eight retired officers, over 60 years of age, had been recruited by the Authority and assigning them in various activities on the capacity of Consultants. Without obtaining the consent of the General Treasury, salaries and allowances ranging from Rs.27,000 to Rs.85,000 had been paid per month.</p> |
| <p>(i) Planning Circulars No.8 dated 30 September 1987 and No.15 dated 18 November 1993 of the Urban Development Authority</p> | <p>Even though the Project had identified 1868 unauthorized constructions and changes, actions had not been taken either to regularize them by charging fee for covering approval and a fee for changing the utilization, if they can be regularized or re-possess the land to the Authority.</p> |
| <p>(j) Value Added Tax amendment Circular No. SEC 2016/02 dated 29 January 2016</p> | <p>Some Local Authorities, decided as development regions, had not opened bank accounts in respect of deposit the service charges of the Authority.</p> |
| | <p>Actions had not been taken to transfer Value Added Tax charged in excess from the capital listed public company amounting to Rs.9,278,763 for the period of 01 January 2016 to 13 January 2016 at the rate 12.5 per cent to that company through a tax credit Note.</p> |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the profits of the Group and the Authority amounted to Rs.817 million and Rs.198 million respectively for the year ended 31 December of the year under review. As compared with the corresponding profit of the Group and the loss of the Authority for the preceding year amounted to Rs.320 million and Rs.133 million respectively. Thus, indicating a improvement of Rs.497 million and Rs.331 million in the financial results of the Group and the Authority respectively as compared with the corresponding financial result of the preceding year. Identification of funds obtained in excess amounting to Rs.1,053 million, to reimburse the capitalized debenture interest, had mainly attributed to improvement in the financial results.

In analysing the financial results for the year under review and preceding four years, except the loss incurred for the 2015, profits were earned for other years. When it take into account the employees' emoluments, depreciation on non-current assets and income tax re adjustments, the contribution of the Authority amounted Rs.1,425 million in the year 2012 and this was improved to Rs.1,927 million up to the year under review.

3.2 Working Capital Management

The current ratio of the Authority for the year under review and preceding year was 0.35:1 and the Authority had failed to maintained an optimal working capital. Although it had not changed the working capital ratio, current assets and current liabilities were increased by Rs.2,777 million and Rs.7,555 million during the year under review, compared with the preceding year.

3.3 Legal Proceedings Instituted by/ against the Authority

Due to the failure of the Authority to take appropriate measures and legal actions for the removal of encroachers from the land situated in Karapitiya town central, 2 acres and 32 perches in extent, that had been acquired by the Authority for the development, the encroachers themselves had instituted legal actions against the Authority to sue for removing of residences and conducting of development activities. The encroachers had obtain a interim injunction thereon and the immediate actions had not been taken by the Legal Division of the Authority to suspend the interim injunction by providing adequate information to the Court though it had been elapsed 4 years for the legal case. Also the effects for the rights of the Authority had not been furnished to audit.

4. Operating Review

4.1 Performance

Preparation of integrated plans for urban developments, taking over of urban development Projects to implement and preparation of urban land utilization policies are the main functions of the Authority. The following matters were observed with regard to the carrying out of above functions during the year under review.

- (a) According to the Progress report of the year 2016, 22 Projects scheduled to be implemented with an estimated cost of Rs.3,252.9 million had not been implemented.
- (b) Four Projects that scheduled to be completed at a cost of Rs.409 million during the year under review had been abandoned on the way.
- (c) The physical progress of 15 Projects of which scheduled to be completed as at 31 December 2016 at a cost of Rs.8,704 million were below 50 per cent.
- (d) Even though 243 urban development zones had been identified in accordance with Section 3 of the Urban Development Act, No.41 of 1978 by the end of the year under review, development plans had been prepared only for 42 Zones.

4.2 Management Activities

The following observations are made.

- (a) Two plots of land more than 3 acres in extend situated in Maradana and Rajagiriya had been transferred on long term leasing basis to 2 private institutes in the year 2014, the long term lease rents further receivable amounting to Rs.1998.7 million had not been recovered for those lands up to the date of this report.
- (b) The rent in arrears receivable from the residents in 11 housing schemes constructed by the Authority as at end of the year under review amounted to Rs.93 million. Out of that, the rent receivables from the residents in Sirisara Uyana and Muwadora Uyana housing Projects amounted to Rs.18 million and Rs.38 million respectively.
- (c) The utility charges amounting to Rs.1,932,056 receivable from 02 shops, Out of the shops constructed under the Balangoda Urban Development Project, were remained unrecovered for over 18 years and the utility charges amounting to Rs.2,685,860 had not been recovered for over 16 years from a rented shop belong to Panchikawatththa Road Project. As well the utility charges amounting to Rs.2,687,787 was in arrears for over 17 years receivable from 3 shops in Vella Vidiya-Colombo. However, actions neither been taken to recover the arrears, cancel the agreement nor repossess the ownership of the shops to the Authority.
- (d) Even though value Added Tax (VAT) and Nation Building Tax (NBT) had been recovered on Ex-tax basis from 06 leasing Projects, the VAT amounting to Rs.25.1 million and NBT amounting to Rs.2.24 million which should be remittanced to the Department of Inland Revenue base on the lease value, had not been recovered since 5 years.
- (e) Due to the lack of proper supervision when conducting the daily investment and operational activities of the Housing Project for public officers, more than Rs.5 million bank balances were existed in bank accounts. Therefore, some portion of the daily interest income that could have been obtained to the Urban Development Authority were losted.
- (f) A sum of Rs.1,490.66 million that had been collected from the Public officers by installment basis for the purchase of houses from the public officers' housing schemes, had been invested in the Repurchasing Treasury Bills, instead of being invested in Fixed Deposits at a higher interest rates than the Repurchasing Treasury Bills. It was

observed in audit that by investing the Fixed Deposits, if could yeiled 01 per cent of interest than the Repurchasing Treasury Bills, an approximate amount of Rs.14.9 million would have been lossed by Authority, only for the period of one year.

- (g) The shopping complexes which have been implemented by the Authority, such as Colombo Supper shopping Complex, Colombo Gold Centre, Floting Market Complex and pavement Park in Borella etc., were unsuccessful due to the reasons of the weaknesses in planning and inadequate customers etc. and up to end of the year under review 204 shops had been closed down. The Authority had not taken sufficient actions to reactivate those projects and to give large propaganda on those shopping complexes.
- (h) It had been agreed to grant the land located at Malabe, 296 perches in extent taken over by the Authority in the settlement of land, 158 perches in extent acquired in the year 2009 for the construction of a sports complex at Navinna, to that company owned the above land. However, it had been agreed to the owner of the land that had been set off without obtaining a valuation from the Chief Valuer for the land and a sum of Rs.55 million had been paid up 31 December 2016. Further, out of the interest payable amounting to Rs.34.41 million, only a sum of Rs.5 million had been paid up to end of the year under review.
- (i) A sum of Rs.104,209,943 remained in arriers by the end of the year under review due to failure of recovering fees from the houses which had been transferred to the householders by the Authority under the Urban Regenerative Project.
- (j) The Urban Development and Real State (Pvt) Ltd, the Urban Development Investment and Hotel Development Company, the Orchard Urban Housing Development Company and Water Edge Hotel Development Company had been incorporated as subsidiary companies of the Urban Development Authority on 21 November 2014 and following observations are made in this connection.
 - (i) The operation activities of those companies had not been commenced even up to end of the year under review.
 - (ii) Those Companies do not commence their business within a year from the date of their incorporation. Hence, in terms of Section 270(b) of the Companies Act, No.07 of 2007, said companies may be winding-up by the Court. Nevertheless, the Director Board had not made a decision in this regard.
- (k) The approval of the Director General had been obtained to cancel the rental ownership of the occupant at Maradana phase-I Project where the rent in arriers for over 17 years amounted to Rs.4,073,344. However, actions had not been taken either to cancel the said ownership or to prevent the accounting of monthly installment through the computer accounting system.
- (l) The Dabulla Shopping Complex scheduled to hand over to the Rangiri Dabulu Viharaya after 30 January 2012. However, as the Chief Incumbent of the Viharaya disagreed to the hand over, that decision had not been implemented. Since continuous evading the payment of rent, necessary actions should have been taken to cancel the agreements. Nevertheless, the Authority had failed to do so, and as a result, the opportunity to invest that premises in an alternative endeavour had been missed.

- (m) A shop owner of the Gunasinghepura Commercial Project passed away and the rent in arrears amounting to Rs.12,639,906 for over 16 years. Further, although the rent income of that shop owner has been identified through the computerized accounting system, actions had not been taken to suspend the accounting the rent income and managerial actions had not been taken to repossess the premises to the Authority.
- (n) Even though encroachments of near by satlers had been revealed from paddy land called Dhaatalaga and Doloslaga located in Talawathugoda (indicated in the Primary Plan No.5516 of plot 21), extent of 01 acres and 29.7 perches (189.7 perches) vested in the Authority in 1983, the Authority had not taken any action to repossess the land to the Authority.
- (o) Without being continued the suggested implementing process of Enterprise Resource Planning (ERP) System, the Authority had entered into an agreement with a Private firm to install and maintain an accounting software. Out of the total amount of Rs.8,300,000 payable to that firm, a sum of Rs.4,150,000 had been paid up to end of the year under review. However, although the installment of the Customized Accounting Software Package should have been completed within the agreed time period of 120 days, the computer software had not been properly installed and implemented even after lapse of 1 ½ years.
- (p) According to the financial estimates and directions given by the Cabinet of Ministers with regard to Urban Regenerative Project, the lands took over to the Project should be invested in the investment Projects in order to raise the funds. However, none of the land acquired by the Authority had been invested in the income generated projects and action had not been taken to prepare the business plans.

4.3 Operational Activities

A special Resolution had been passed at the Special General Meeting held on 31 July 2012 to voluntarily winding-up the Peliyagoda Warehouse Complex Ltd with effect from that date. However, even after lapse of over 4 years, actions neither being taken to winding-up the company nor the cancel the Resolution.

4.4 Transactions of Contentions Nature

The following observations are made.

- (a) A land belonged to the Authority, in extent of 2 acres, 2 roods and 21.4 perches, located adjacent to D.R.Wejewardana Mawatha Colombo Fort, had been rented out to a private company for 99 years on long term lease basis. According to the unnumbered letter of the Chairman dated 17 November 2016, it had been agreed to lease out the land below the estimated value of the Government Valuer by Rs.330 million and as a result the Authority had incurred a loss of Rs.330 million from the disposing of this land.
- (b) A special allowances, 1/3 of the basic salary, had been continuously paid during the last several years, to 50 officers comprised of entire officers of the Chairman's and Director General's offices and selected officers from other sections, without obtaining the Treasury approval. a sum of Rs.2,143,394 had been so paid for the year under review. As well the basis for the selection officers had not been explained to audit.

- (c) A Jeep, Toyota Land Cruiser, which had been purchased by a subsidiary company of the Authority, the Urban Development and Investment Company, for Rs.17,500,000 in the year 2014 had been used by the chairman of the Authority since the purchasing date. All the maintenance cost of the Jeep had been incurred by the Subsidiary Company even in the year under review.
- (d) The Canteen and Hall charges amounting to Rs.1,195,046 had been paid by the Authority in the year under review on behalf of the workshop conducted by a Project implemented under the Ministry of Western Development and Megapolice.

4.5 Uneconomic Transactions

The following observations are made.

- (a) Sums of Rs.92 million and Rs.120 million had been expended by the Urban Development Authority and the National Housing Development Authority respectively up to end of the year 1993 for the construction of 40 storied tower building (pordium) in a land, one acres and 23.1 perches in extent, belonged to the Urban Development Authority and located on Station Road Bambalapitiya. The shops had been constructed on 03 stories of the building (comprising 43,000 square feet) up to end of the year 1993. The Ocean View Development Private Ltd had been incorporated as joint venture of the Urban Development Authority and the National Housing Development Authority in order to rectify the deficiencies of the building and their maintenance and to acquire external lands for developments etc,. Although that private Company had earned the income from renting out the shops in the building, dividends had not been transferred to the Authority from the year 1993 to end of the year 2016. As well, without being charged long term rental, a nominal rent of Rs.100 per month had been charged from said private Company by transferring the property on 99 years long term lease basis. Hence, the Authority had not received any return on the investment.
- (b) An average amount of Rs.6,642,865 had been paid by the Authority for inaugural ceremony of the construction of a science and technology city which was not affiliated to the functions of the Authority. Out of that, a sum of Rs.5,512,000 had been paid to the organizing firm of the ceremony and another sum of Rs.828,894 had been paid for newspaper advertisements.
- (c) No dividend had been received on the investments amounting to Rs.500,000 and Rs.36,309,841 made by the Authority in the Housing Development Finance Corporation and the Colombo Land Development Company respectively.
- (d) Construction of flats for the dwellers who were occupied in the land belonging to the Slave Island Redevelopment Project, had been given to a contractor by the Land Developer and the construction works scheduled to be completed during the year 2015. However due to the delays of the contractor, implementing of the project also was delayed. As the result, total amount of Rs.66,694,000 had been paid by the Authority as the additional consultancy fee of Rs.5,496,000 and monthly rental of Rs.61,198,000 for the dwellers occupied in the said land, until giving them flat units. However, the Land Developing Company had not reimbursed that amount up to end of the year under review.

- (e) Without being followed the procurement procedure, a consultancy firm had been selected by the Authority to obtain the service for establishment of Enterprise Resource Planning System. The estimated cost for the system amounted to Rs.195.7 million. According to the Consultancy service agreement, a sum of Rs.5,705,000 should be paid the selected firm. Out of that, a sum of Rs.3,803,995 had been paid as at end of the year under review. However, without implementing and operating the system, it had been abandoned.

4.6 Identified Losses

The stalls in the Charmas Greneries Project had been removed after being demolished in the year 2011 with a view to utilize them for another project and the rent receivable from those stalls as at end of the year under review amounted Rs.13,870,076. However, a new Project had not been commenced in the land up to end of 2016 and it had not been utilized for any investment activity.

4.7 Staff Administration

The following observations are made.

- (a) Fifty Seven officers had been recruited for 30 posts that had not been in the approved cadre of the Authority. The existence of 42 vacancies for 22 posts over the past several years relating to the senior, Executive and Management levels of the Authority and existence of 13 excess in the 8 posts had directly affected the performance of the Authority.
- (b) Three Managers and 04 Architectures who had worked under the Urban Investment and Development Company, a subsidiary Company of the Authority, had been released to the service of the Authority on Secondment basis. A sum of Rs.7,046,465 had been continuously paid to those officers as salaries and allowances over last 3 years up to end of the year under review. It can not be ruled out in audit that release of permanent officers of the company to the services of the Authority would be a hindrance to the activities of the Company.
- (c) An officer had promoted in an irregular manner to the post of Deputy Director (Land) without having the minimum required qualifications and without being complied with the promotion procedure.
- (d) Without being followed the formal procedures such as calling applications and conducting of interviews etc., 5 officers had been promoted to the posts of Director (Planning North and East) Director (Development Planning) Director (Land Development and Management) Director (Geographical Information Systems).
- (e) Without obtaining the approval of the Secretary to the General Treasury, in terms of Section 9.10 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, a new post, namely unite Leader, had been created and 05 officers had promoted to new posts. However, the formal procedures that should be followed to create new posts, had not been applied and promotions had also been granted without being adhered to regular procedures.

- (f) By amending the required work experience mentioned in the promotion procedure of the Directors, without obtaining the formal approvals, reducing the work experience required for lower level posts from 5 years to 3 years and work experience required for immediate predecessors in the post of the Deputy Director General from 7 years to 05 years, 07 officers had been promoted. Out of the above promotions, one officer had been promoted to the post of the Deputy Director General, particularly reducing the required work experience of the immediate post from 7 years to 3 years.
- (g) The following observations are made relating to the recruitments and promotions made by the Urban Regenerative Project.
 - (i) By over stating the requirement of staff for the Urban Regenerative Project, the approval had been obtained from the Department of Management Services to recruit 217 staff members, instead of being obtained the approval for minimum requirement. Despite the facts that only 60 officers had enrolled on contract basis.
 - (ii) Nineteen officers who are working in the Authority had been appointed to the Project activities. When appointing so, it had been created abnormal posts such as an Additional Project Director, 6 Deputy Project Directors, 04 Assistant Project Directors and 04 Project Managers etc,. As a result, the staff cost of the Project had been increased.
 - (iii) Instead of being recruited the officer who scored the high mark at the interview for the post of the Deputy Project Director (Project Management and Contract Administration), the second higher scored officer had been recruited to the above post without having reasonable a reason to do so.

5. Accountability and Good Governance

5.1 Corporation Plan

Even though in terms of section 5.1.3 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, the corporate plan prepared by the Authority for the years from 2013 to 2017 had not been up dated in the year under review.

5.2 Action Plan

Strategies to be carried out in the year under review included in the Corporate Plan for years 2013 to 2017, had not been included in the Action Plan for the year under review and the Action Plan had not been updated and reviewed in timely manner. As well as the actual data relating to targeted activities of each division had not been presented as at end of the year under review and therefore, it was not possible to assess the performance of those activities.

5.3 Internal Audit

Even though the internal Audit Division had observed that certain existing internal control systems appears to be weak, it was observed that there was no an approach within the entity to strengthen such control system and action had not been taken to strengthen the staff of the Internal Audit Division in line with widening of the functions of the Authority. The functions included in the annual audit programme had not paid an adequate attention on the performance audit of the Authority.

5.4 Unresolved Audit Paragraphs

An adequate attention had not been paid by the Authority even by the end of the year under review on the following matters included in the audit reports for the preceding years, and out of them, certain observations had been drawn the attention of the Committee on Public Enterprise as well.

- (a) Even though 128 cases of encroachments had been revealed from the land with 7.35 acres where the Waters Edge Company is established, the Authority had failed to take appropriate measures for the removal of encroachments.
- (b) According to the development plan of the Kandy Municipal Council's Region, the construction activities can not be done within the area of genional natural conservation zone. However, the clearance certificate had been issued by the Authority.
- (c) The 1 and plots No.6,7 and 8 marked in the plan No.කො 6399 located at Kotuwegoda Perera Mawatha, Rajagiriya had been transferred irregular to a private firm for the development on long term lease basis. Without being followed the general procedures, that land had been transferred by the former Director (Land Development and Management) in irregular manner.
- (d) According to the notified development plan for the Kandy Municipal Council Region, allowable ratio for the flow area of a house is 2.5. However, without considering the above ratio, the primary clearing certificates had been issued by central Provincial Branch of the Authority.
- (e) Even though issuing of building primary solution application by the Central Provincial Branch of the Authority had been rejected, the Director of the Province had taken actions to issue Primary Planning Solution Certificate.
- (f) Even though the bare land of 5.32 perches in extent with a higher market value adjacent to Nandarama Housing Complex and owned by the Authority had been encroached by an external party, the Authority had not taken any action to repossessed the land.
- (g) The Authority had not taken actions to make use of 11.44 acres of lands that had been vested in the Authority by the Divisional Secretariats of Colombo and Badulla Districts, in development activities.
- (h) Non utilization of the alternative trade centre constructed for road hawkers at a cost of Rs.16 million in the year 2002 at Saunders Place in Pettah.
- (i) Out of the value of Rs.406,483,000 order to pay on a Court Decision, on behalf of Waters Edge Hotel encrusted to the Authority in the year 2008 further action had not been taken to paid a sum of Rs.261,483,000.

- (j) A sum of Rs.207,331,767 had been retained by the Authority without being remitted to the Urban Settlement Development Authority (USDA) in terms of Section 16(i) of part II of the Urban Settlement Development Authority Act, No.36 of 2008.
- (k) Even though the shopping Procurement Procedure can be applied only for the procurement value below Rs.5 million, the shopping procurement procedure had been applied to procure capital goods for the rehabilitation of Colombo-Race Course valued at Rs.40.64 million and to Procure goods related to other projects valued at Rs.72.36 million.
- (l) Two bids amounting to Rs.12,200,240 and Rs.3,800,000 had been presented to the Authority by 2 contractors for the demolition and removal of the old building at the housing complex in Maura Place, Wellawaththa and sale of debris respectively. However, the Authority had not assigned the task to contractors, instead the building had been demolished by incurring funds of the Authority amounting to Rs.6,296,440 and debris had been sold for Rs.750,000, thus causing a total loss of Rs.17,746,680 to the Authority.
- (m) As boundaries had not been marked, security fence lines had not been evicted properly around the land, 103 perches in extent valued at Rs.85 million, located at Madiwala, external parties had encroached those lands, by constructing permanent buildings, and cultivating perennial crops.
- (n) According to the decision of the Board of Directors No.229/2014 dated 26 August 2014, action had not been taken to obtain the ownership of the motor vehicles belonged to the subsidiary company of Peliyagoda Warehouse Complex Ltd.
- (o) The Authority had issued Rs.10 billion worth of debentures in October 2010 redeemable in 5 years with the objective of collecting funds for national programme, which had not complied with the objectives of the Urban Development Authority Act, on the construction of 68,000 houses for the shanty dwellers in the city of Colombo. However, actions had not been taken to development of 142 acres of land in the city of Colombo and preparation of a business plan in that connection according to the objectives of issuing the debentures, even after lapse of 5 years. As well, only 5203 housing units had been constructed and handed over to the General Public, out of the proposed housing units of 68,000.
- (p) The approval of the Authority had been granted for the construction of 5 storied building including under ground flow in a unqualified land situated in the Region of Borelasgamuwa Urban Council area, contrary to the Extraordinary Gazette No.392/09 dated 10 March 1986 of the Democratic Socialist Republic of Sri Lanka.
- (q) Even though a service charge of Rs.6,081,048 should be charged to issue the building plan clearance certificate for a building 1126.12 square meters in extent and belonging to the Central Region, that certificate had been issued without being charged.

- (r) The following deficiencies were observed relating to the Urban Regenerative Project:
- No actions being taken to take over the lands about 24 acres in extent related to 10 housing schemes.
 - The construction contract had been awarded contrary to the Government Procurement Guidelines and the construction contract, the value of Rs.20.8 billion had been awarded as unsolicited proposals.
 - Abandonment of the projects carried out under the Urban Regenerative Project.
 - A sum of Rs.222 million had been incurred for the bank guarantees, commissions and legal services in an idle manner.
 - An additional cost of Rs.2,098 million had to be incurred for 65 housing units, a sum of Rs.1,066 million had been over paid for variation orders issued on 13 contracts, a sum of Rs.143 million had been paid in excess on behalf of 39 housing units.
 - Failure to recover the rent receivables to the Authority in regular manner due to the lack of rent agreements.
 - A programme had not been implemented to carry out the maintenance activities of 5,203 flat housing units.
 - A loss of Rs.137 million had been incurred due to transferred of 157 units of houses to the Colombo Municipal Council and due to giving of 205 units of houses to the employees of the Railway Department, those who had occupied in Railway houses, on permanent basis. Hence, it had unable to give the houses to the new employees.

5.5 Environmental and Social Responsibility

The following observations are made.

- (a) To identify the unauthorized constructions and to take actions thereof, the timely investigations had not been carried out by the Investigation Division of the Authority.
- (b) Four thousand nine hundred and thirty seven houses, constructed under 9 flat housing projects of the Urban Regenerative Project as at end of the preceding year had been vested in occupants. However, to establishment of Management Committees comprising with the occupants of those houses, in order to carried out maintenance activities and management functions of those housing schemes, regular authority had not been handed over to the Condominium Management Authority.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following arrears of control.

Arrears of Systems and Controls

(a) Accounting

(b) Control of Debtors and Creditors

(c) Budgetary Control

(d) Assets Management

(e) Procurement Process

(f) Human Resource Management

Observations

(i) In preparing of final accounts, the information relating to the Authority and Subsidiaries, had not been correctly coordinated and the subsequent adjustments made through the journal entries had not been correctly updated.

(ii) Many Account Code Numbers had been shown in the Trial Balance relating to the debit and credit balances of the same account and existing of many prior year adjustments.

(iii) Due to the weakness in the computerized accounting system, scope of the Auditors had been limited.

(i) According to the balance confirmations, there were contentions disagreements about the accuracy of the balances.

(ii) Delays in updating of the debtors' accounts and not submission of debtors' age analysis.

(iii) Proper actions had not been taken to recover the receivables from debtors.

Not preparing of rational estimates and incurring of expenditure had been done without having a budgetary control.

Existence of under utilized assets, the assets had not been correctly documented, assets verification reports had not been kept properly, not made available of Land Registers.

There were some instances deviating from call for competitive bids.

Giving Promotions and enrolments had been done without following the procedures, and the plans had not been prepared to recruit for existing vacant posts.